INDEPENDENT THINKING

THE NEW STANDARD IN WEALTH MANAGEMENT

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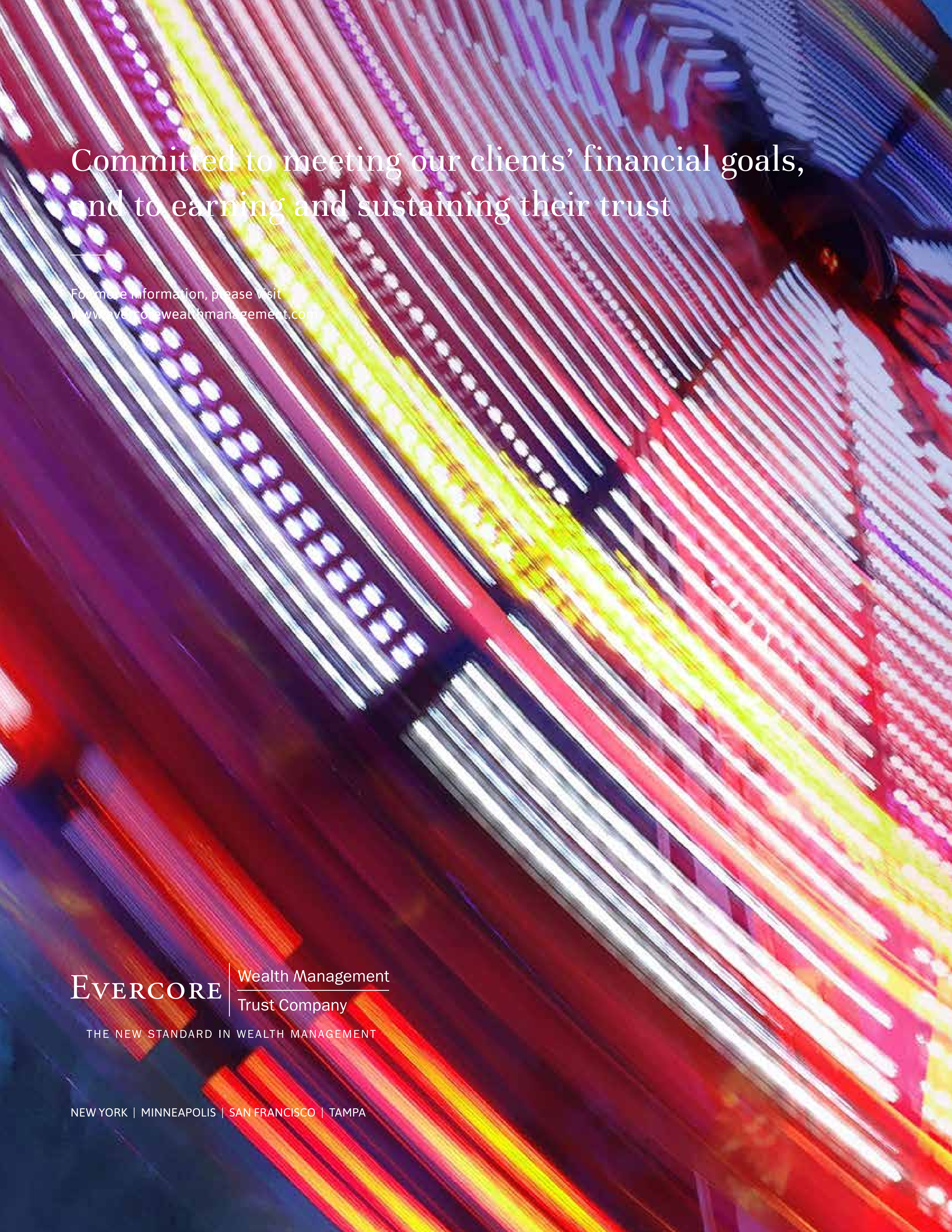

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THE NEW STANDARD IN WEALTH MANAGEMENT

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A Message from the CEO

Disruption can strike suddenly, through innovation, big mergers, or regulatory change. Or it can build gradually, so investors, like the proverbial frog in the pot of heating water, barely take notice.

After two years of political disruption, events that would have once seemed extraordinary – including the start of a trade war and deteriorating international relations – are being digested by the markets, in large part because U.S. companies are continuing to perform so well.

Our portfolios are also performing well, both by traditional benchmarks and in meeting our clients' goals. Our job as investors is to take advantage of current market conditions as long as they last – and to ensure that our clients and their portfolios are prepared for change. As our Chief Investment Officer John Apruzzese writes in these pages, disruption is rapidly accelerating now, the consequence of technological and demographic, as well as political, change. We also look at the historic relationship between disruption and deflation, and at some companies, including those that are shaking things up and those that are successful in getting out of the disruptors' way.

Disruption in our personal lives is sometimes welcome, sometimes not. You'll see more articles in future editions of *Independent Thinking* on managing life stages, from marriage to divorce or the death of a spouse, from building a business to selling or transferring ownership, and on committing to philanthropy or, as we discuss in this issue, to passion investments. Moving is certainly disruptive, and some of our clients in high-tax states are relocating as a result of the Tax Cuts and Jobs Act of 2017, which slashed state and local tax, or SALT, deductions in high-cost, high-tax states like New York, New Jersey, Connecticut and California.

On a related note, we will soon be opening an office in Palm Beach, Florida, something you'll be hearing more about in the coming weeks. The office will expand our firm's presence in the Southeast and serve clients who, like me, spend part of the year in the region, as well as those who have upped stakes on a more permanent basis.

Good advisors can help individuals and families navigate change. They aren't always easy to find, however, which is why I write here about tough questions to ask your advisors. This is not intended to be a self-serving exercise – no one wealth management firm, including ours, is right for everyone.

Fortunately, we do seem to be a good fit for a growing number of families: *Barron's and Financial Advisor* have again rated Evercore Wealth Management among the top Registered Investment Advisors in the United States. We are grateful to our clients and to our colleagues at Evercore for their referrals and continued confidence in our firm.

I hope you and your family are having a happy and healthy summer.

Jeff Maurer
Chief Executive Officer

Investing as Disruption Accelerates

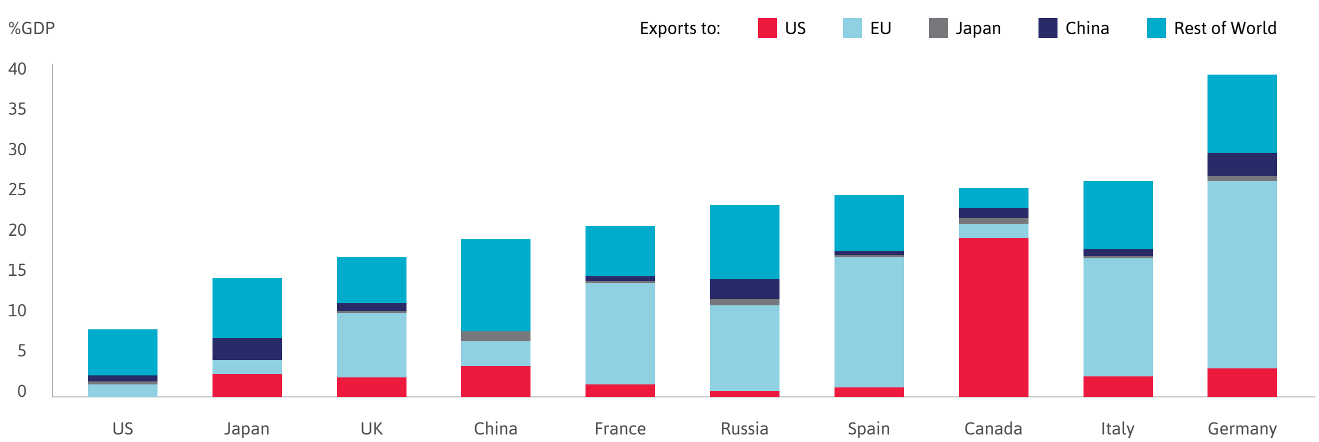
By John Apruzzese

Powerful disruptive forces are all around us, as technological, political and demographic changes accelerate. For investors, the challenge is to detect meaningful messages amid the cacophony.

Of immediate concern to investors is the disruption to international trade being caused by President Trump. The 50-plus year trend of generally falling tariffs thanks to multilateral trade agreements is being reversed. While the increase in total global trade resulting from the trade agreements is considered by almost all economists to be a net benefit to all countries, including the United States, the resulting U.S. trade deficit has become a political problem. A classic trade war featuring tit-for-tat tariff increases will have an impact on major U.S. exporters, although as a whole the United States has the lowest amount of exports as a percentage of GDP than any other major economy by a wide margin (see the chart below) and is therefore relatively insulated. But, of course, the conflict is about a lot more than just the trade deficit.

The Trump Administration's real fight is with China for global leadership in technology. The United States is home

Exports as a Share of GDP



Source: Deutsche Bank Research.

to six of the world's ten largest tech companies, with two of the others in China. China perceives itself at a strategic disadvantage that it plans to correct by accelerating its acquisition of home-grown intellectual property through "Made in China 2025," a government initiative to upgrade the country's industrial base. China also plans to ramp up semiconductor manufacturing to cut back on the $200 billion it spends each year importing these technological building blocks.

Big American technology companies and U.S. financial markets seem to be taking the burgeoning trade war in stride, at least so far. Indeed, several industry giants continue to grow at astonishing rates for their size. Just five technology stocks account for about 13% of the market value of the Standard & Poor's 500 index, a concentration not seen since the height of the tech/telecom bubble that burst in 2000.

A crucial difference is that technology industry leaders are financially and commercially stronger than they were then. They seem better positioned to continue growing at a fast pace, at least until Washington counteracts their power through tougher trade regulation and, eventually, antitrust rules that could force some of them to break up. That will be a key signal. Reports of the extensive amounts of information that some large tech companies, notably Google and Facebook, compile on their users have raised concerns in many quarters that they are becoming too powerful a force in society. When Mark Zuckerberg, Facebook's co-founder and chief executive, testified before Congress in June, it highlighted the growing disconnect between Silicon Valley, on one hand, and Washington and much of the rest of the country on the other.

> *It's important to own companies recognized today as successful disruptors in the United States and China.*

While awaiting a shakeout, it's important to own companies recognized today as successful disruptors in the United States and China. (See the article by Tim Evnin on page 5.) It is at least as important to get out of their way, avoiding exposure to companies, and even whole sectors, affected by the disruptors. Media and retailing, to take just two examples, have changed beyond recognition in the last few years, and they continue to change at a pace that seems to us too rapid to discern many lasting winners.

Although purchases of music in physical form continue to decline, consumption measured by tracks streamed or downloaded has been increasing at a rapid pace and is at an all-time high. Global revenues, however, were nearly one-third lower in 2017 than in the peak year of 1999, according to the latest figures from the International Federation of the Phonographic Industry. Revenues from video consumption show an upward trend, but the amount of content consumed through digital downloads, streaming and other direct-to-consumer channels is soaring. While it may feel as if we are paying more for video services, we are getting far more for our money. If major media companies like Disney and Comcast compete more vigorously with leaders in the distribution of direct-to-consumer content, such as Netflix and Amazon Prime, it will only exacerbate the deflationary trend.

In retailing, prices of durable goods have been falling for decades. While global trade underpinned this trend in the 1990s and 2000s, the cause more recently has been the so-called Amazon effect, in which brick-and-mortar retailers are forced to cut prices to compete with the dominant online retailer. And the Amazon effect is likely accelerating. Because shoppers can easily compare prices before they buy any item and are becoming less brand sensitive, traditional retailers will either have to compete on price or have a specific draw to attract shoppers.

> *The hoped-for advances often take longer than expected, and investors need to be selective and patient.*

Technological advances in renewable energy are also gaining momentum. Solar and wind power, even without government subsidies, are comparable in cost with power generated from fossil fuels, and the cost of battery storage is coming down quickly, as well. It has been difficult until recently to invest directly in the disruptors in this field because of their dependence on shifting subsidies, but new opportunities are coming into focus. We recently invested in a private-equity fund, True Green Capital, that is building large, commercial solar power installations. And we've long avoided companies ripe for disruption, such as utilities dependent on coal; gas turbine manufacturers, such as General Electric, an original constituent of the Dow Jones industrial average in 1896 that was dropped from the index in June; and the mainline auto manufacturers.

Biotechnology and healthcare, like technology generally, are areas of rapid innovation where as much money has tended to be lost as gained by attempting to invest in disruptors. There are significant opportunities in these niches, as Joelle Kayden, the manager of Accolade, our recently selected venture capital investment fund, discusses on page 10. But the hoped-for advances often take longer than expected, and investors need to be selective and patient.

We are actively managing our client portfolios with our focus on the long-term consequences of the disruptions emanating from the technological, political and demographic upheavals.

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

INVESTING IN THE DISRUPTORS — AND COMPANIES THAT AVOID THEM

by Tim Evnin

Major disruptors, the ones that are changing how we all live and spend, have an important place in our portfolios. So too do some of the companies that are using disruptive technology to battle competitors. We also think it's a profitable strategy to look for companies that other investors perceive to be at risk, and have priced accordingly, but that we believe will prove to be survivors.

Two of the big disrupters that are broadly owned in Evercore Wealth Management portfolios are Alphabet, the parent of Google, and Amazon. These companies continue to disrupt entire industries and don't seem to be slowing down. Just recently, Amazon made a $1 billion acquisition of a private company in the pharmaceutical distribution business. On the announcement, values in other public companies in the pharma retail distribution business declined by a collective $14 billion in a single day's trading. Google and Amazon continue to grow much faster than many smaller companies, and we believe they still have huge potential.

Technology and pizza seem an odd marriage but Domino's, a recent addition to many of our portfolios, has over 100 software engineers and is using technology to grow faster than its peers. Their sophisticated interactive online system allows customers to track their order from making to cooking to delivering on a real-time basis. It also saves significant manpower costs.

Even brick and mortar retailers can survive and prosper if they play to their strengths and offer something that Amazon or other online only, or predominantly online, competitors cannot. TJ Maxx and AutoZone are two examples. We've owned both stocks for some time, but most other investors are just coming again around to TJ Maxx, after the company recently upgraded its growth and profitability forecasts. AutoZone is still in a "show-me" phase, as investors fear that Amazon will destroy their business. However, very little auto-parts business is conducted online and we don't see signs of that changing anytime soon. We believe AutoZone will continue to grow and hopefully be rewarded by investors for its resilience.

Tim Evnin is a Partner and Portfolio Manager at Evercore Wealth Management. He can be contacted at evnin@evercore.com.

Evercore ISI on the Outlook for U.S. Interest Rates

By Krishna Guha

At the Humprehy-Hawkins testimony in July, Federal Reserve Chairman Powell set out a phased two-stage approach to monetary policy. The Federal Open Market Committee, or FOMC, would continue steadily raising interest rates at the current gradual pace – de facto once a quarter – "for now." Then, in a less sharply defined second phase, the Fed would feel its way back to a neutral rate setting before considering whether it might need to go beyond this into outright restrictive territory to curb overheating.

Editor's note: **Krishna Guha** is Vice-Chairman of Evercore ISI and heads the Global Policy and Central Bank Strategy team based in Washington, DC. Evercore ISI's Washington office is ranked on the Institutional Investor's All-Star Team for Washington research, which is based on a survey of money managers. Evercore ISI is one of the sources of research considered by Evercore Wealth Management.

This approach reflects the challenges facing the Fed as it attempts to preserve current favorable economic conditions – low unemployment and inflation around target – in the face of a big shock from fiscal policy and a second potentially large shock from trade conflict.

Added together, the recent Trump tax cuts and sequester-busting Congressional spending deal make up the biggest fiscal stimulus the U.S. economy has experienced at this stage of the business cycle in many decades. This stimulus ought to add around 70 basis points to growth in both 2018 and 2019, although this effect could be dampened some by trade-related uncertainty.

The last comparable episode was back in the 1960s with "guns and butter" (the Vietnam War and the Great Society) under the Johnson administration, ultimately leading to excess inflation, recession and the beginnings of a prolonged period of poor economic performance. A huge amount has changed in terms of the nature of the economy and labor force since then, but Fed officials are very aware that the 1960s experiment did not end well and want to avoid overheating this time.

The likelihood that inflation will run away on the Fed in the next year or so seems low. While unemployment is at around 4% this summer and expected to decline further, labor participation has firmed, bringing additional workers into the labor force. At the same time, wages are rising only gradually, the modern inflation process is moving slowly, trend inflation is around target, and inflation expectations appear muted.

70 basis points

Potential post-tax cuts increase in the U.S. economic growth in both 2018 and 2019

But the FOMC has to worry about overheating on a three- to four-year view, with this trend to growth and rapid hiring pushing unemployment to levels (perhaps in the low three percent range) at which excess inflationary pressures slowly begin to build or even accelerate. If the Fed wants to sustain the expansion, it has to prevent this from happening.

A full-blown trade war would push prices higher and growth lower.

Trade conflict further complicates the Fed's task. Trade uncertainty is already likely dampening the investment outlook to some degree. A descent into a full-blown trade war would push prices higher and growth lower – a difficult combination for the Fed. In particular, the growth impact of a full-blown trade war is hard to model and may well be greater than conventionally estimated. This is because traditional models likely shortchange the impact on financial markets and confidence, as well as the costs of disrupting globally integrated supply chains.

Fed officials tend to see neutral rates at somewhere between 2.5% and 3%.

We believe that in the event of a full-blown trade war, the Fed would try to look through the initial first round effects of tariffs on prices and support growth, provided that inflation expectations remained unchanged and there were few signs of the initial tariff-driven price increases infecting the larger inflation dynamic. However, this is not a simple exercise.

For the time being, the strength of the economy under fiscal stimulus and the need to balance trade risks against overheating risks mean that the Fed has a strong default to continue with some further quarterly rate hikes, absent a sharp deterioration in the outlook (perhaps caused by trade escalation), and then move back toward a neutral rate setting.

Fed officials tend to see neutral rates at somewhere between 2.5% and 3%. As the Fed approaches the lower end of that range, it will move out of the current phase of steady quarterly hikes and into a more empirical meeting-by-meeting assessment of how much further it needs to go to prevent (or if needed, curtail) overheating.

That assessment will be informed by a wide range of market and macro data. The classic yield curve slope – which gets outsized attention in markets but the Fed leadership thinks is distorted by quantitative easing effects – will be only one part of the evaluation. In the end, neutral is as neutral does – and while the Fed might pause to look around in March or June 2019, it will only stop when it is confident that under the prevailing rate setting unemployment and inflation will stabilize at levels that are sustainable and consistent with its goals.

Provided that trade conflict does not become a full-blown prolonged trade war, we continue to suspect that rates will head to 3%-3.5% before the tightening cycle is over, with essentially all this remaining tightening taking place over the next 18 months. Even if we avoid the most extreme trade outcomes, the difficulty the Fed will face threading the needle in the period ahead – tightening just enough to prevent overheating under fiscal without overdoing it as fiscal cools off with all the complications of trade conflict – should not be underestimated. As a result, our view is higher than normal that there is a risk of recession on the 2020-2021 horizon.

For information on Evercore ISI Research, please contact Evercore Wealth Management Partner and Portfolio Manager **Charlie Ryan** at ryan@evercore.com.

Disruption and Deflationary Progress

By Brian Pollak

Investors are so intent on finding signs of inflation – from accelerating wage growth in a strong economy, say, or rising prices on imported consumer goods suddenly burdened with tariffs imposed in a simmering trade war – that they can fail to see signs of *deflation* all around them. The population is aging and therefore saving more and spending less; industries are being deregulated; and tax rates have been lowered.

Perhaps the most significant force for deflation is technological disruption: innovation that is so sweeping and powerful as to do away with old ways of doing things and introduce new ones that are vastly cheaper and more efficient. So much in the world today seems new and different, but this sort of thing has happened before. The period roughly between 1870 and 1914, from just after the Civil War until the start of World War I, had an explosion of technological progress so profound that the era is sometimes called the Second Industrial Revolution.

Breakthroughs in communication, transportation and manufacturing were driven by brand-new inventions, including the telephone, radio and internal-combustion engine; improvements in existing ones that helped them to enter widespread use, such as electric lighting, steamships and steam locomotives; and new techniques in engineering and chemistry. These advances helped to create phenomenal economic growth and significantly improved the standard of living in America.

They also created deflation. Between 1870 and 1914, consumer prices were estimated to have fallen by 0.5% annually. (Please see the chart on page 9.) It turns out that significant technological innovation can make goods and services significantly cheaper. The main catalysts for the price declines during this period were efficiencies inherent in much faster methods of transportation and communication – it's cheaper, faster and easier to send a message via telegraph than on horseback – and enhanced manufacturing techniques, such as mass production using interchangeable parts. These efficiencies made it easier for supply to meet or exceed demand, reducing prices and stimulating new demand that led to a further increase in supply and economies of scale that brought prices down even more.

0.5%

Annual drop in consumer prices between 1870 and 1914.

The ability to do much more for much less money is a signature characteristic of technology that is manifesting across many industries, as John Apruzzese discusses in the cover article of this issue. A list of physical items available on a single smart phone (which has more computing power than all of NASA during the Apollo days) provides a striking example of technological disruption and its deflationary impact: books, newspapers, cameras, dictionaries, encyclopedias, road maps, video game players, music players, scanners, computers, televisions and, of course, equipment for making phone calls. The combined cost of all of these items circa 2006 (the year before Apple brought the first iPhone to market) far exceeds the price of an entry-level smart phone today.

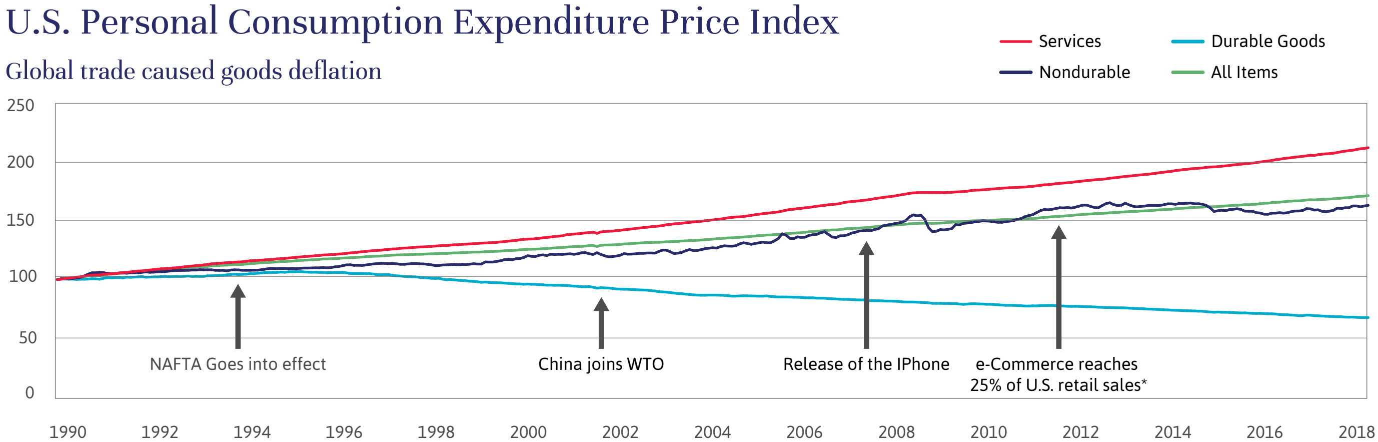
In fact, the price of goods in the U.S. has been stagnant since 1990, thanks to a combination of global trade and technology innovations. While global trade policy is less certain today, the direction of technology remains clear, as indicated by the chart below. Costs in most industries will continue to be driven down by automation and new technology. Driverless and electric vehicles will make transportation cheaper; more efficient use of big data in diagnostics and disease prevention will cut costs in health care; and artificial intelligence and deep learning technologies could push prices down in almost any industry by changing the productivity of labor.

We may not be at the forefront of a third industrial revolution as profound as the second one (or the first), but technological disruption is certainly impacting many industries, with significant investment implications that will affect portfolios now and in the future.

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

U.S. Personal Consumption Expenditure Price Index

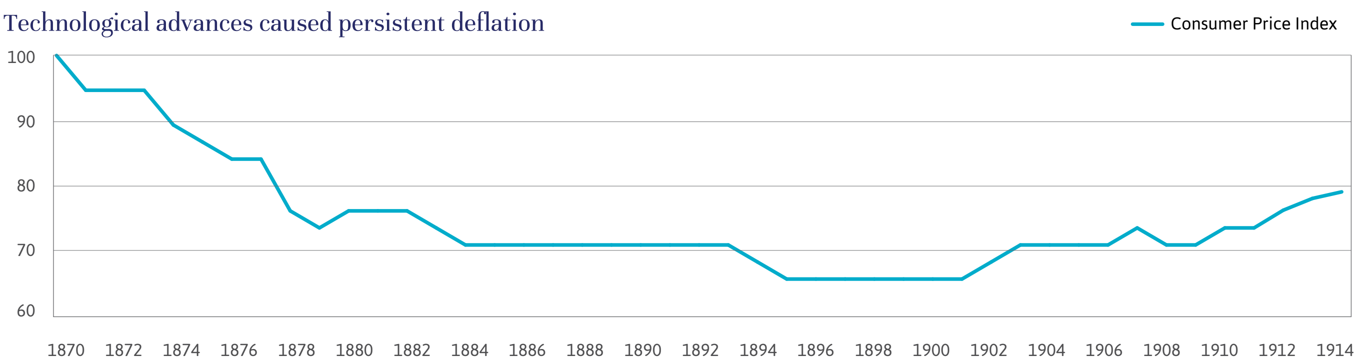
Global trade caused goods deflation



Note: Personal consumption expenditures measures price changes in consumer goods and services.
Source: Bloomberg, May 30, 2018

Consumer Price Index During the Second Industrial Revolution

Technological advances caused persistent deflation



Compound Annual Growth Rate between 1870 and 1914 was -0.52%
Source: Bureau of Labor Statistics

Q&A

with Accolade Partners on private growth equity and venture capital

Joelle Kayden

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 venture capital with Joelle Kayden, founder and managing member of Accolade Partners. Accolade is a venture capital and growth equity fund of funds, concentrating on the technology and health sectors. Please note that this represents the views of Accolade and not necessarily the views of Evercore Wealth Management.

Q: What would you say to investors who are concerned that they missed the big years in the venture capital, or VC, markets?

A: First of all, venture capital is a long-cycled asset class. It typically takes a fund around three years to invest in a portfolio of companies. Assuming a company is successful, it can take seven to ten years for an outlier return to be realized. You can't time the market, which means that investors should be consistent in allocating to venture if that fits with their risk/return parameters.

Second, I could repeat a commonly heard phrase, which is that today "every company is a technology company." Or, as Marc Andreessen says, "Software is eating the world." It is clear that the pace of change driven by technology is accelerating and impacts all industries and geographies. The opportunity set today is larger than it has ever been.

Q: Accolade has a strong record of outperformance. Please describe your investment approach and the way you work with the funds in which you invest.

A: Accolade's investment process is deliberate and clear. We have the luxury of focusing on venture capital and growth managers in software and healthcare. We invest with conviction and build portfolios that are concentrated in our best managers. We work hard to be a value-added partner with our managers. Where appropriate, we make introductions to prospective investors, customers and even employee candidates. We are considered a trusted advisor, valued for our candor and willingness to help.

Q: What characteristics stand out to you when deciding to invest with a manager, especially those with new or emerging funds?

A: We conduct extensive due diligence on our existing managers as well as new managers. For Accolade, this is an ongoing process, and is not just initiated in connection with a fund raise. We ask questions like: "How hungry is this manager?" "What is unique about how this manager sources investment opportunities?" "How do you think about portfolio construction?" and "What is your firm culture?" Then there are the obvious ones like: "What is the track record, and do we believe that it is replicable?" As Accolade is a portfolio, we also want to add managers who are accretive to the portfolio, so oftentimes it is in an area where we want additional exposure, like biotechnology, or a geography, like Los Angeles. Many new or emerging managers are individuals we have gotten to know over time or have been associated with previously. In addition, we want managers who are coachable and good listeners.

Q: How do you view VC valuations at present? Where are you finding opportunity?

A: Accolade's fund managers invest at the earliest stages of company formation. We have made a deliberate decision to focus our investments there. We believe that this is the most attractive area on a risk/return basis. We think that valuations – most notably at the later stages – are frothy, as there is a lot of capital looking for a home. That is also where returns can be compressed if valuations correct in the public market.

Q: Accolade's fund-of-fund strategy has lots of flexibility but isn't entirely unconstrained. Tell us about some of Accolade's constraints (tech vs. healthcare, growth vs. early stage, vintage year, etc.) and why you thought those constraints were important.

A: Accolade is a disciplined investor. In addition to wanting to have concentrated portfolios of around 15 managers, we have invested consistently in software (75%) and healthcare (25%) in both venture managers and growth equity managers. We also have vintage-year diversification and like our managers to invest consistently throughout their respective investment periods. We invest exclusively in U.S.-based managers, not because we don't think other geographies are attractive, but because we can spend 100% of our time digging deep into one market where we have a distinctive edge and opportunity to identify and access the best managers.

Q: Transparency is a critical consideration in investing. How do you assess fees charged by funds you're investing in?

A: The fee structure of our underlying managers is pretty straightforward. We prefer funds that have a European waterfall, where managers have to return the whole fund before getting carry, so our interests our aligned. [Editor's note: The distribution waterfall is the order in which a private equity fund makes distributions to limited and general partners. The European waterfall, or global waterfall, means that the hurdle threshold is calculated at fund level. The American waterfall, or deal-by-deal waterfall, calculates the hurdle thresholds for each deal.]

Q: VC is a long-term investment, sometimes more than seven to ten years. Over that time, economic cycles can change significantly. How do you invest throughout the cycle? What sort of assumptions do you make about economic growth and/or recovery when evaluating opportunities?

A: We need to rely on our managers to be disciplined, both in what they pay when investing in a company but, equally important, in knowing when to sell. Our managers usually underwrite a return based on the same multiple at exit that they paid at entry, which means that companies have to grow to achieve a good rate of return. Although the economy matters, technology and healthcare companies have demonstrated that they can grow in periods of modest economic growth. In weaker economic times, exit multiples are constrained, but with patience, companies with strong fundamentals can manage through that.

Q: You and other Accolade partners invest significant amounts of personal capital alongside your investors. How does that shape your investment focus and your tolerance for risk?

A: We love investing in Accolade, as it is what we know best. Technology and healthcare are two great sectors in which to invest. The great opportunities today are in the private and not public markets, so this is the best way to access growth.

For further information about Accolade Partners and about other funds on the Evercore Wealth Management investment platform, please contact **Stephanie Hackett** at stephanie.hackett@evercore.com.

Passion Plays: Investing from the Heart and the Head

By Iain Silverthorne

Investing is supposed to be a mental exercise: using facts and figures to forecast risk-adjusted returns for different asset classes, poring over income statements to gauge the prospects of one company's stock over another's, and so forth. We're only human, so emotions like greed and fear are always lurking in the background, but as long as we're aware of the role they play and rely on our better rational judgment – and a good financial advisor – we should be able to keep them in check.

A passion project is something different. It's likely to be a private business or some other illiquid, often obscure and opaque asset, rather than a regulated, publicly traded security. And the investment is made with emotional, not just financial, considerations. It could be a startup looking for seed money, running a restaurant with friends, maybe a one-act play that a relative wants to produce off-off-off Broadway, or perhaps paintings, rare coins or vintage wines collected by a hobbyist who wants to kick things up a notch.

What they all have in common is that markets in them are very thin and may not exist at all. If you want to sell a stock, you may not be able to get what you paid for it, and sometimes there isn't a buyer at any price. If no one likes your friends' cooking, by contrast, it may be impossible to sell the restaurant. If friends ask you to invest in their first restaurant, consider telling them that you will invest in their second restaurant.

Before jumping in, ask yourself some questions. What is the purpose of the investment? What is its personal value or significance? Are there alternative ways to express this interest other than financially? Can you afford to do this? Really? Will it impact your cash flow materially or change the likelihood that you will meet your financial goals if you lose all the money you invest in it? What percentage of your overall assets, liquid or illiquid, will this investment account for?

We would normally classify private-company passion projects as very high-risk undertakings, especially if the funds are invested in a single, early-stage private company. To put a finer point on that, be prepared to lose all of your capital. The exception to that would be for passion investments in tangible assets such as classic cars, rare wine or art. In those cases you may lose money, but unless there is fraud involved, there is usually some residual value.

Your advisors should be able to help you pursue your passion without letting it get the best of you or your portfolio. They can act as a sounding board, a gut check on your investment thesis, and set the investment criteria and investment evaluations metrics. They should help with legal and tax considerations for passion investments and can perhaps provide access to research and contacts. And they can, as the article below suggests, say "no" on your behalf.

The best way to invest in what you're passionate about may be to think of it not as an investment at all; instead of money, measure your returns in terms of enjoyment and fulfillment.

Iain Silverthorne is a Partner and Wealth & Fiduciary Advisor at Evercore Wealth Management. He can be contacted at silverthorne@evercore.com.

Some passion play tips:

- Make the most of any expertise you have in the domain where your passion resides. Top private-equity firms are successful not just because they invest in the right businesses, but because they have management skills that help the businesses become better.

- Don't rely solely on your expertise. Just because you know one industry, it may not improve your judgment when it comes to investing in another. Likewise, don't confuse being lucky with being good. If you've had success with one passion project, unless you can point confidently to steps you took that helped to ensure its success, don't count on it happening again.

- There's safety in numbers. Consider joining an angel investment group, in which well-off individuals, often retired business owners, pool their financial and cognitive resources for the opportunity to learn and access a network of experts in your field of interest.

- Decide how much time and energy – and passion – you really want to commit. Is this a passive investment, or do you want to be actively involved? Before taking a board position in a private company, make sure you're covered by director's and officer's liability insurance.

- If you're investing in a startup, be prepared to be hit up for additional cash as the company grows. For instance, if you are investing $50,000 in a family and friends seed round in a startup that has a $1 million valuation for a 5% ownership position, then as the company grows and needs additional capital, you will have to add more funds to maintain your ownership percentage if that is important to you.

- Consult your tax advisor and attorney before investing in any entity or private company as some ownership structures can be more tax advantageous than others. For instance, start-up companies in certain industries that are structured as a C Corp versus an LLC may qualify as a Qualified Small Business Stock, or QSBS. Gains from selling QSBS may be eligible for an exclusion of up to 100% from federal income tax on gains of up to $10 million or 10 times your tax basis.

- Consider your exit strategy, especially if the investment goes bad. How, when and why would you walk away? Sometimes saying "no" to friends can be difficult, especially when they are desperate for additional funding. Working with your financial advisor to set guidelines around the amount you are willing to risk can help clients stay objective. You can always blame the "no" on your financial advisor.

-IS

Having it all – and Keeping it

By Tom Olchon

Financially successful young people have it all: money, fame, talent and youth. But many soon find themselves struggling to make ends meet.

Sports Illustrated estimated a while ago that 78% of NFL players experience financial hardship within two years of retirement, and 60% of NBA player players experience similar issues within 5 years of retirement.* Anecdotal evidence suggests that MLB players are also not immune from financial problems – nor are young artists or entrepreneurs.

Why is it so hard for young wealth to establish long-term financial responsibility; after all, this may be the one chance to secure the future. But those who make it big early in life are absorbed in their own profession. They often don't have the financial education or the experience to manage the proceeds of a big deal or contract. Some do, of course. Taylor Swift bought her parents a house at age 21 without any apparent injury to her wealth plan. But those who made other, more frivolous choices have not fared as well.

* Sports Illustrated 2009

Johnny Depp allegedly spent $3 million to fire author Hunter S. Thompson's ashes out of a cannon, and rapper 50 Cent turned a $155 million fortune into a multimillion-dollar debt – and a bankruptcy filing.

As for requests, there will be many, and they will be frequent. Indeed, young stars are often surrounded by those who would happily help them spend; who see them, as one entrepreneur put it, as a "walking ATM machine." Many young people are interested in helping their families and making meaningful contributions to charities, as well as spending on themselves. However, it's important to first establish a clear understanding of assets, objectives, financial needs and goals, and cash flows. It can be difficult to select a financial advisor (see Jeff Maurer's article on page 18), but there are resources available. It's up to the individual, as well as his or her business manager, to ask the tough questions and demand clear answers.

The long-term growth and preservation of wealth is a function of the combination of spending choices and investment choices. To establish a reasonable rate of spending, it's important to first understand the expected annualized return for the assets on an after-tax and net-of-fee basis, adjusting for risk tolerance, time horizon and liquidity needs, and allocating assets appropriately. The right plan serves as a spending guide. For instance, if a diversified portfolio might reasonably expect to deliver long-term annualized net returns of 5%, then a reasonable spending rate might be 3% of the annual value of the portfolio.

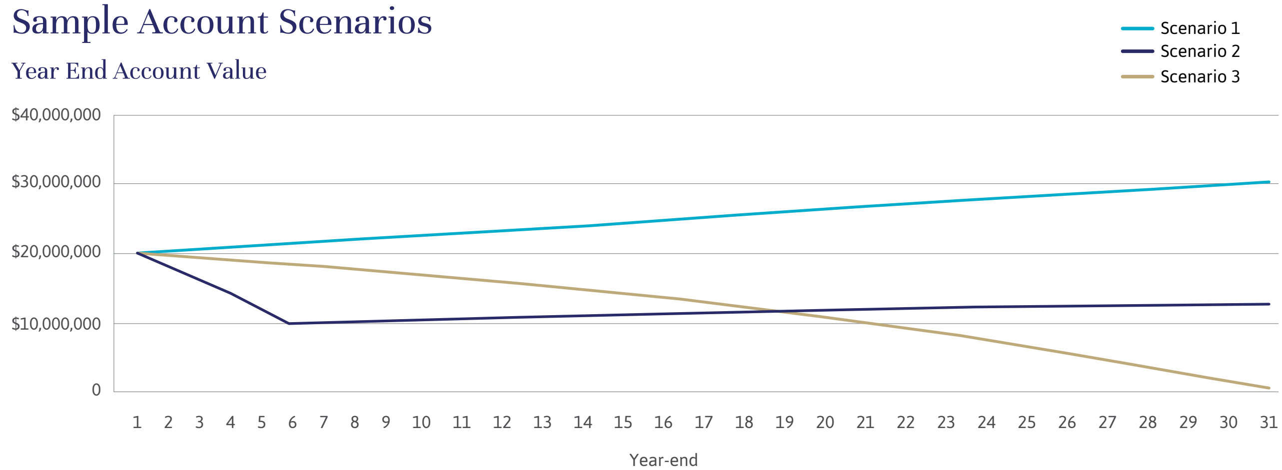
78%

of NFL players experience financial hardship within two years of retirement

Let's look at the implications of the choices for a young person with, say, $20 million before age 30, as illustrated in the chart on page 15. Establishing a diversified portfolio can help the asset base grow over time, when coupled

Sample Account Scenarios

Year End Account Value



Scenarios are based on Evercore Wealth Management's calculated projected returns.
Source: Evercore Wealth Management.

with a reasonable level of spending (Scenario 1). If spending is significant at the beginning, even if that spending moderates in the later years, the longer-term effects on a diversified portfolio can be negative (Scenario 2). Even if spending is set at a reasonable level at the outset, without the benefit of growth from a diversified portfolio, there is a risk of asset depletion over time (Scenario 3).

Again, any investment strategy should consider the time horizon, liquidity needs, tax treatment, and suitability of each investment. Developing a sensible asset allocation for each grouping of assets, taking into account these considerations and building out a diversified portfolio of imperfectly correlated assets, will help to smooth returns and avoid financial calamities. All investors need to understand what they are investing in, what incentive the advisor has to make the investment, and if there are any restrictions or fees related to liquidating the investment. Fees can have an impact on the long-term success of a financial plan, and it is important to understand all fees associated with all providers and products.

Once individuals have educated themselves to the greatest extent possible and selected a trusted qualified advisor, they can begin to establish a financial plan. One of the most critical decisions will be how much to invest and how. A variety of IRA vehicles, including traditional IRAs, ROTH IRAs and SEP IRAs (among others), depending on individual circumstances, can be effective ways to compound growth in an income tax-efficient manner. If there are children involved, there are many ways to set funds aside in a tax (income and/or gift and estate) advantaged way, including 529 plans and other trust structures. Time is on the side of young investors, and leveraging that horizon to save and invest for the future can have a significant impact on financial security decades later.

Further asset protection takes on many forms. A comprehensive understanding of the location, custody, and titling of all assets is essential to assess risk and build in protection. A careful review of insurance, both property and casualty and life, should be undertaken along with a review of the proper structuring of any business or investment relationships (utilizing partnership structures to limit the exposure to liability, for example). If and when appropriate, specialty insurance policies available through customized underwriting can be created to address very specific risks, such as an injury. If marriage is a consideration, a prenuptial agreement may be appropriate. If there are particular people who should benefit from the assets (children from a previous marriage, for example), a trust structure could be a solution.

It is never too soon to start thinking about the future. From basic defensive planning, including health care proxies and durable powers of attorney, to living trusts and tax-efficient wealth transfer strategies for the benefit of others, taking responsibility for young wealth is at least as satisfying as spending. And it's far, far more rewarding in the long term.

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Estate and Gift Tax Exemption: Use it or Lose it

By Karen Francois

The clock is ticking on current federal transfer tax exemptions. Does that make now the right time to transfer wealth?

FEDERAL ESTATE, GIFT, GENERATION-SKIPPING TAX LANDSCAPE

	2017	2018
Annual Exclusion		
Single Person	$14,000	$15,000
Married Couple/Gift Splitting	$28,000	$30,000
Gifts to Non-U.S. Citizen Spouse	$149,000	$152,000
Lifetime Gift Tax Exemption	$5,490,000 (indexed)	$11,180,000 (indexed)
Maximum Gift Tax Rate	40%	40%
Estate Tax Exemption	$5,490,000 (indexed with portability)	$11,180,000 (indexed with portability)
Maximum Estate Tax Rate	40%	40%
Generation-Skipping Tax (GST) Exemption	$5,490,000 (indexed, no portability)	$11,180,000 (indexed with portability)
Maximum GST Tax Rate	40%	40%

1 This chart does not include any possible state estate tax rates, rules or exemptions.
2 The annual exclusion is indexed for inflation and can only be increased in increments of $1,000.
3 The gift, estate, and generation skipping transfer tax exemption is indexed annually for inflation.
4 Portability of the federal estate tax exemption is defined as if one spouse dies and does not make full use of his or her exemption, the surviving spouse can make an election to utilize the deceased spouse's unused federal estate tax exemption in addition to his or her own exemption.

Individuals can now pass $11.18 million to heirs, free of gift, estate and generation-skipping transfer taxes; for married couples that exception is twofold, or $22.36 million. The Tax Cuts and Jobs Act of 2017 linked these exceptions to inflation, which means that they should continue to increase, albeit slowly, over the next few years. However, they will sunset in 2025 and the prior exemptions, $5.6 million and $11.2 million, respectively, will be restored. And that could happen sooner if the political climate changes.

The incentive to act soon is clear. That doesn't make it an easy decision, however. Thoughtful, properly designed trusts can be a powerful tool in fulfilling a family's long-term financial objectives, while avoiding cause for regret.

The first consideration has to be supporting your own lifestyle. Do you have enough to maintain your standard of living and meet your other personal financial objectives? If there's any ambiguity, a spousal lifetime access trust, or SLAT, may be the right solution. Assets are gifted to the trust to utilize the increased exemption amounts but are not includible in either spouse's estates, nor subject to additional generation-skipping taxes when property passes to younger generations. The beneficiary spouse retains access to the gifted property in the event it is needed. This can be important if circumstances change and the grantor and spouse need to recover some of the gift put in the trust.

Just as important is to consider whether your income would be sufficient if the beneficiary spouse dies before the grantor and the couple loses access to the gifted property. Divorce could also be another issue to consider. In the event of divorce, the beneficiary spouse's status terminates, putting an end to his or her ability to receive trust distributions. Also, the grantor no longer has access to the gifted property.

Concerns that children aren't ready to inherit can also delay decision-making. Placing property in trust now would allow the grantors to utilize the current exemptions while designing the terms of the trust to determine when and how funds are ultimately disbursed. The approach can also protect the assets from future creditors, or divorce.

There are other good reasons to act while the current law remains in effect. For example, are you holding promissory notes from prior estate-planning transactions? If so, consider utilizing some of your increased exemption amount to forgive these notes. Are the values of assets owned by one spouse greater than the increased federal exemption amounts and greater than the value of assets owned by the other spouse? If so, consider transferring assets to the less-propertied spouse to take advantage of the increased generation-skipping tax exemption, which will shelter assets passing to grandchildren and great-grandchildren from further tax.

Say, for example, you plan to leave your children and grandchildren $10 million in your estate at your death, and you die in 2026 after the increased exemption expires. Under this example, your estate would have incurred both federal and state estate taxes of about $1.6 million. If, on the other hand, you create a trust now, your unified credit and generation-skipping tax exemption could be used to offset all taxes attributable to the gift.

In addition, you could save on state estate taxes, as lifetime gifts are generally not subject to state gift tax (unless you live in Connecticut). That said, we recommend coordinating any gifts with your legal and tax advisors to better understand your specific state transfer tax rules. Further, any appreciation earned on the trust assets would benefit your family and not be subject to tax in your estate. The potential compounded growth of the portfolio at 6.4% could allow an additional $8.4 million of assets to pass to your family without additional tax.

Now is an important time to review your current estate plan and to re-evaluate whether your plan is meeting your family's overall objectives.

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Navigating Wealth Management

By Jeff Maurer

Wealth management has long been ripe for disruption. It's a fragmented and often opaque market, and no institution has – or ever will have – universal appeal. So how can a prospective client find the right fit, or how can an existing client evaluate an ongoing relationship?

Culture is a good starting point, especially in a business as personal as wealth management. Having to call a 1-800 number isn't a promising start, but there are many, more subtle signs to look for in figuring out the firm's culture. (Some of the most important are listed on page 18.)

> *We never set out to be all things to all prospective clients.*

For the record, we thought about culture a great deal when we established Evercore Wealth Management in 2008, at the depths of the Great Recession. We had seen how quickly once great banks and trust companies could lose their bearings, by placing their firms' interests ahead of their clients' as the consequence of disruptive mergers or changes in management. We would make mistakes, but never that one.

Nor were we going to mislead clients on fees, liquidity, the potential impact to a portfolio of a significant market drawdown, or anything else we could think of. We would practice what many of us call "radical transparency" as a cornerstone of our culture and pride ourselves on, as a *New York Times* feature on our firm a few years later labeled it, *"Telling the truth on fees, warts and all."**

We never set out to be all things to all prospective clients. If you are looking for, say, access to hot new stock issues or do a lot of directed trades, a brokerage firm may suit you better than a registered investment advisor. And really large firms will have more technology-driven solutions.

Other choices will be very personal, as well as practical. For example, how much attention do you and your family require? It's generally true that complexity increases along with wealth. But periods of transition (marriage, divorce, the sale of a business and so on) and market volatility are best navigated in close communication with knowledgeable advisors and portfolio managers. It's interesting that robo-advisors, which have done much to help increase transparency and lower fees in this industry, are now hiring human beings, as are discount brokerages.

Change is often good, and it's arguably long overdue in this business. But the most important elements stay the same. As it should be practiced, wealth management integrates very personal financial and fiduciary planning with solid investment management to meet individual and family goals.

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

* https://www.nytimes.com/2013/05/18/your-money/an-investment-firm-evercore-offers-clients-honest-returns.html

Tough Questions to Ask Any Advisor

Dale Carnegie, the author of one of the world's bestselling books and, for better or worse, the grandfather of the self-help genre, believed that the highest levels of influence are reached when trustworthiness and generosity surround our behavior. More than 80 years later, that still seems reasonable way to evaluate a wealth management firm. But how do we evaluate these qualities in financial advisors? Here are a few tough questions to get you started.

- Do you provide advice on investments, financial planning, retirement planning, estate planning, insurance planning and tax planning?
- Will my investment portfolios be customized to meet my goals and risk tolerance?
- Are your fees transparent, easy to understand and fully disclosed?
- Does your firm negotiate fees? If so, how can I know that I am getting the lowest fee the firm offers?
- How are you compensated? Can you earn compensation for selling specific products?
- How is your firm compensated? Does it earn compensation in any way other than through disclosed fees?
- Is your firm's performance reported clearly, gross and net of fees?
- Is your firm audited? Is it subject to regulation? Does it have a code of ethics?
- Is your material clear, free from jargon and understandable?
- Do you report performance on a routine basis? Is it measured against industry benchmarks – and will it be measured against my objectives?
- Do you share your best thinking with your clients? Do you provide financial education for all members of the family?
- Do you provide trustee services?
- What other services does your firm provide? How will they help meet my needs?
- Who will work with me and my family? Can I contact my wealth advisor and portfolio manager directly?
- How will you communicate with me? How proactive are you? How flexible?

Generosity is demonstrated; real trust is earned – and easily lost. That's something I've experienced twice in my career, before joining Evercore, and am determined never to see happen again.

—JM

Evercore Wealth Management's *Wise Women program* seeks to raise financial awareness, identify personal wealth and risk objectives, and provide guidance for thoughtful spending, investing and giving.

McKinsey on the Power of Parity

Advancing gender parity could add $12 trillion to the global economy, said McKinsey partner Kweilin Ellingrud at the May 23 event hosted by the Evercore Wealth Management office in Minneapolis.

According to the McKinsey Global Institute's study, The Power of Parity, achieving the economic potential of women in work in the United States alone could add $2.1 trillion in GDP, or 0.8%, to annual GDP growth over the next decade. Every state and city could add at least 5% to their GDP, and half of U.S. states (including New York and Florida) could add more than 10 percent. Among developed economies, the potential gains are largest in the United States – and could help offset the demographic trend to a declining share of working-age people in the economy due to aging populations.

At present, however, corporate America is not on a path to equality. Gender equality in society is linked with gender equality at work. At current rates, it will take more than 100 years to reach gender equality in the C-suite, Ms. Ellingrud said.

RBG: The Documentary

Evercore Wealth Management hosted guests for a private screening in New York of *RBG*, the documentary about Supreme Court Justice Ruth Bader Ginsburg, and a talkback session with Lisa Beattie Frelinghuysen, a former clerk for the Justice and the driving force behind the film.

The discussion, which was moderated by Evercore Wealth Management Managing Director and Financial Advisor Jill Faherty Lloyd as part of the firm's *Wise Women* program, addressed the making of the film, continuing sexism and women's growing wealth.

"In our lifetime we have seen a revolution: tremendous advancements for women yet, we still see a profound pay discrepancy, lack of women in leadership positions, and women entrepreneurs having a harder time accessing capital," said Ms. Frelinghuysen. "This *Wise Women* community is not only becoming better educated financially, but is meeting each other, supporting each other, helping each other advance and making lasting contributions to our society."

Independent Thinking Panel Series:

- Matt Cohler on Privacy & Technology
  Speaker: Matt Cohler | Moderator: Calvin Chin
- Bitcoin, Blockchain and Cryptocurrencies
  Speaker: John Apruzzese
- The Sharing Economy and Its Implications
  Speaker: Tom Fisher

Wise Women Seminars:

- How to Discuss Finances and Investments with Your Spouse
- Victoria Medvec on Negotiation for Women in the Workforce
- Toasting the Holidays:
  A Mother/Daughter and Daughter-in-law Champagne Tasting

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

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