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

For more information, please visit
www.evercorewealthmanagement.com
A Message from the CEO

This is a hot summer, both in politics and in the U.S. markets. As even the most seasoned observers of Beltway machinations mop their brows, it’s worth remembering that our economy is robust enough – and our companies are run well enough – to function quite independently of Congress. Even as hopes for pro-business reforms recede, the S&P 500 index hovers around record highs.

The U.S. economy is also big enough to afford domestic investors access to opportunities around the world. As our Chief Investment Officer John Apruzzese writes in this issue of Independent Thinking, the S&P 500 index companies derive about 40% of their combined revenue overseas. At some level, just about all U.S. investors are international investors, whether we know it or not.

However, many of these companies now look relatively expensive, when compared with their peers overseas, even in U.S. dollar terms. While we remain positive on the United States, we have modestly increased our allocations to the major markets of continental Europe and to the emerging consumer markets of Asia.

We also consider some of the complexities of strategic wealth planning, as a whole and in disposing of an art collection and establishing a family mission. Every family, whether happy or not, is different in its own way, and there are often varied and competing interests at stake. It is our job to meet each family’s goals, which is why there are no cookie-cutter approaches at our firm and no 1-800 numbers. By honoring the individuals involved and helping to reconcile family differences, we earn and sustain the trust of our clients.

On a related note, we looked at our retention rate recently, and I am pleased to report that 95% of the clients who joined us in the first two years of operation are with us now as we look forward to our tenth year. This seems to me a real testimony to our approach. As active wealth managers, we built – and manage – this firm to enable our people to do the right thing for our clients, and that is clearly resonating in a crowded marketplace. Financial Advisor magazine has again named us among the top Registered Investment Advisors in the United States, and we are continuing to grow across the country.

One last note: We’ve registered a great deal of interest in the lead article of our previous issue of Independent Thinking, titled Better Together: Active & Passive Investing, and we’ve followed up with a number of related seminars. Please see page 20 for a brief recap of a recent event in New York, and check with your Evercore Wealth Management team on plans for future events near you. We will be addressing this topic further in this publication and in other communications.

I hope you and your family are enjoying an active, healthy, and happy summer.

Jeff Maurer
Chief Executive Officer
Near & Far: Investing Internationally

By John Apruzzese

The S&P 500 index of leading U.S. shares has risen over 50% faster than the rate of international markets in the eight years since the financial crisis – and for good reason. Early and aggressive monetary policies helped stimulate the U.S. economy and, most important, corporate earnings. In addition, the extraordinary confluence of innovation and capital in one corner of California continues to drive the global technology sector. Eight of the world’s top 10 tech companies are based in the United States.

Betting on America should continue to pay, but at current price levels, it’s difficult to see how it will pay quite as much, relative to either recent years or to other developed markets. U.S. equities are trading at 18 times their forward estimated earnings, compared with a 50-year average multiple of 15 times forward earnings (see chart on page 5). At the same time, international markets have begun to outperform the S&P 500, as international foreign corporate earnings grow after many years of stagnation. Stock markets around the globe, including France, China, and India, have recorded bigger gains so far this year – and may continue to do so – but remain relatively cheap.

For U.S. domiciled investors, determining an international allocation is not obvious. Passively following the global benchmark would call for allocating about 50% of an equity portfolio in U.S. stocks. This strikes us as too low. The S&P 500 companies derive about 40% of their collective revenue abroad, providing U.S.
However, it’s important to challenge complacency and rebalance portfolios that skewed too far in favor of the United States. International stock markets as a whole have outperformed the S&P 500 when the U.S. dollar is relatively cheap, which seems to us a distinct possibility over the next few years. (Indeed, as the charts on page 4 illustrate, returns on international stocks beat the U.S. market between January 1983 and December 1988 and again between January 2002 and December 2007.) We recently increased our allocation to international stocks to 30% from 25%, which seems to us about right at present.

In Europe, fears that Brexit will cause the European Union to unravel have greatly diminished after very different electoral results in the Netherlands and France. It may be that the isolationist policies in Britain – and in the United States, with the election of President Trump – have brought continental Europeans together, as they reaffirm shared values and strive to present a unified front in what can seem like a more fractured, dangerous world. At the same time, the economy’s growth rate is accelerating, unemployment is falling, corporate profits are on the rise, and the Euro has investors with significant international exposure and minimal currency and political risk. In other words, betting on large U.S. corporations has been tantamount to betting on global growth, for U.S. dollar-based investors. As the third chart on page 4 shows, this approach has clearly paid off in the past 10 years.

U.S. companies are trading at 18x estimated earnings, vs. a 15x historic average

30%

The current Evercore Wealth Management allocation to international stocks
Betting on Global Growth


Source: Bloomberg
Core Equity Portfolio and the Matthews Pacific Tiger Fund. Artisan is an actively managed international fund with a strong, fundamental, value-oriented investment process that will complement the DFA fund, which is more closely tied to the benchmark.

The U.S. economy has performed relatively well during this slow-growth recovery and expansion, and we remain positive on U.S. equities in general. However, we are not complacent. A robust exposure to international stocks seems to us appropriate at this juncture.

The emerging markets are, as always, more of a wild card. In China, the driver of most of the emerging economies, growth is clearly slowing and total debt levels are a concern, but the economy is still growing faster than most, and the authorities have proven adept at keeping the game going. (See page 6 for an interview with Matthews Asia.) India is another bright spot in Asia, with the potential to take the growth baton from China.

While actively managing a core U.S. equity portfolio is a core competence of ours, selecting stocks within the very diverse international markets is not. We gain exposure to the international markets by investing in both the enhanced passive and active strategies of firms that have demonstrated an ability to generate positive returns from international equity investments.

At present, we are adding the Artisan International Value Fund to our current holdings in the DFA International Core Equity Portfolio and the Matthews Pacific Tiger Fund. Artisan is an actively managed international fund with a strong, fundamental, value-oriented investment process that will complement the DFA fund, which is more closely tied to the benchmark.

The picture is not quite as bright in Japan, where economic growth is constricted by severe demographic challenges. But there does appear to be a significant change in corporate culture and government regulation that is causing Japan’s major corporations to pay more attention to shareholder returns. Rising profit margins from persistently low levels is evidence of fundamental change.

The emerging markets are, as always, more of a wild card. In China, the driver of most of the emerging economies, growth is clearly slowing and total debt levels are a concern, but the economy is still growing faster than most, and the authorities have proven adept at keeping the game going. (See page 6 for an interview with Matthews Asia.) India is another bright spot in Asia, with the potential to take the growth baton from China.

While actively managing a core U.S. equity portfolio is a core competence of ours, selecting stocks within the very diverse international markets is not. We gain exposure to the international markets by investing in both the enhanced passive and active strategies of firms that have demonstrated an ability to generate positive returns from international equity investments.

At present, we are adding the Artisan International Value Fund to our current holdings in the DFA International Core Equity Portfolio and the Matthews Pacific Tiger Fund. Artisan is an actively managed international fund with a strong, fundamental, value-oriented investment process that will complement the DFA fund, which is more closely tied to the benchmark.

The U.S. economy has performed relatively well during this slow-growth recovery and expansion, and we remain positive on U.S. equities in general. However, we are not complacent. A robust exposure to international stocks seems to us appropriate at this juncture.

John Apruzzese is the Chief Investment Officer at Evercore Wealth Management. He can be contacted at apruzzese@evercore.com.
Q: Is MSCI’s recent decision to include China A-shares in the MSCI Emerging Markets Index a positive development?

A: Yes, MSCI’s decision to add mainland Chinese shares to its benchmark index is encouraging. China has been further opening its capital markets over the past four years. In our opinion, China’s A-shares market is too big to be overlooked by global investors. It is the world’s second-largest equity market in terms of both market capitalization and turnover. Until now, MSCI indices have been lacking in their representation of China’s overall markets.

Q: How could this decision benefit investors?

A: Foreign investors now can take advantage of a unique opportunity to participate directly in companies that are benefiting from being part of one of the world’s most dynamic economies. The MSCI decision allows 222 of China’s large-capitalization domestic A-share stocks to be gradually included into the Emerging Markets Index, starting in June 2018. The number of stocks represents approximately 0.73% of the weight of the MCSI Emerging Markets Index. In recent years, China’s A-shares market has evolved – in terms of both the growing number of listed companies and in overall quality. We’ve seen the overall regulatory and corporate governance environment improve, and have seen better accessibility with the “Stock Connect” programs of the Shanghai and Shenzhen stock exchanges.

Q&A with Matthews Asia

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 the prospects for investors in China with Matthews Asia investment strategist Andy Rothman.* Please note that this represents the views of Matthews Asia and not necessarily the views of Evercore Wealth Management.

China is the World’s Fastest-Growing Consumer Market – By Far

Real compound annual growth rate of final consumption from 2009 to 2015

<table>
<thead>
<tr>
<th>Country</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>8.7%</td>
</tr>
<tr>
<td>Germany</td>
<td>1.1%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>1.4%</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>4.9%</td>
</tr>
<tr>
<td>India</td>
<td>6.9%</td>
</tr>
<tr>
<td>Japan</td>
<td>0.9%</td>
</tr>
<tr>
<td>South Korea</td>
<td>2.7%</td>
</tr>
<tr>
<td>Thailand</td>
<td>3.4%</td>
</tr>
<tr>
<td>United States</td>
<td>1.5%</td>
</tr>
</tbody>
</table>

Oxford Economics estimates that the number of Chinese middle-class consumers will exceed the entire population of the U.S. by 2026. Data for India and Thailand is from 2009 to 2014. Source: World Bank.
Q: What led MSCI to include these stocks?

A: In recognizing China’s efforts to meet MSCI criteria and further open up capital markets, the index company said, “MSCI is very hopeful that the momentum of positive change witnessed in China over the past years will continue to accelerate.” It added that further inclusion of China A-shares “will be subject to a greater alignment of the China A-shares market with international market accessibility standards, the resilience of ‘Stock Connect,’ the relaxation of daily trading limits, continued progress on trading suspensions, and further loosening of restrictions on the creation of index-linked investment vehicles.”

Q: How old is China’s A-share market?

A: Started in 1992, China’s A-shares market is relatively young. Challenges still exist, and improvements need to be made. Retail investors currently dominate the overall market. Trading can be volatile and government intervention can be heavy-handed. We are encouraged, however, by the strong potential and opportunities in the A-shares market, and believe long-term investors can benefit from exposure to A-shares.

Q: How much experience does Matthews have with China A-shares?

A: Matthews Asia has extensively studied and invested in China’s domestic A-share companies for many years. In 2014, our firm was awarded a Qualified Foreign Institutional Investor, or QFII, license and quota that enabled us to invest directly into China’s domestic securities market, including the market for China A-shares. We have also participated in A-shares via the “Stock Connect” programs, which in recent years have linked the Shanghai and Shenzhen stock exchanges to the Hong Kong Stock Exchange and enabled foreign investors to buy A-shares with fewer restrictions than under the QFII schemes.

We are attracted by the fundamentally sound merits of many local companies listed in China. We realize, however, that many quality A-share companies in growing industries can be priced at high valuation multiples, which makes our experience of carefully vetting them critical. We believe long-term investors can benefit from exposure to A-shares. Our focus always has been on taking a fundamental approach to finding leading A-share companies poised to benefit from the country’s structural shift toward its domestic economy.

* This interview has been adapted with permission from an article published in June 2017 by Matthews Asia.
Illiquid Assets: Worth the Trouble?

By Stephanie Hackett

Many investors are familiar with – and comfortable investing in – traditional asset classes. Stocks and bonds, along with the associated risks, are generally well understood, and their returns are widely reported. Alternative assets are less understood, and the associated complexity can seem daunting. There are often high minimum investment requirements, long capital lock-up periods, and erratic capital calls and distributions. And there’s a lot of paperwork involved, including filing Schedule K-1 tax returns, sometimes in multiple states.

Alternatives can be worth the trouble, however. Illiquid assets, in particular, have the potential to add attractive and uncorrelated return streams to a portfolio, improving the portfolio’s overall return and reducing risk.

Over long periods of time, illiquid assets have historically outperformed public market stocks and bonds, net of fees. This illiquidity premium, or the additional return that investors expect to receive in exchange for locking up their money for a period of time, has generated returns 3%-5% higher than those of public equities over 10-, 15-, 20- and 25-year time periods.1

The illiquidity premium is increased further when investing in top-quartile funds, due primarily to the differences in skill levels, or value-add, among managers. Although there is no guarantee of future results, studies have shown that manager performance in illiquid investments tends to be highly persistent,2 meaning that those skilled managers who have outperformed their peers and the market in the past have a higher likelihood of outperforming again in the future. To this end, identification of, and access to, top-quartile performers is key.

EXPANDED OPPORTUNITY SET AND PORTFOLIO DIVERSIFICATION BENEFITS

Investing in illiquid assets allows investors to participate in opportunities that are not accessible in the public markets. Private equity managers can invest in a broader universe of companies, often with high-growth potential. For example, venture capital and early-stage growth equity funds provide capital to companies developing new technologies and disruptive business models. Although many of these companies go public later in their business cycle, typically a substantial portion of their growth occurs while they are privately held. A significant amount of real estate properties are also privately held, including office, retail, multi-family, and industrial properties.
Illiquid asset managers also focus on privately held middle market companies: those with revenues between $10 million and $1 billion. This is a robust market across many sectors, and one that has outpaced the revenue growth of S&P 500 companies in the past three years. There are nearly 200,000 businesses in the United States in this range, or four times the number of publicly traded companies. Middle market companies make up nearly 33% of the country’s private sector GDP and provide nearly one-third of all U.S. jobs.

Investors in illiquid assets can participate in the growth of the middle market by investing in private equity funds, which own middle market companies, or by investing in private credit strategies, which lend to middle market companies. It’s also worth noting that many private equity firms bring not only patient capital to the companies that they invest in, but also considerable operational and industry expertise. Firms with specialized industry knowledge are able to create value throughout economic cycles, beyond using financial leverage. Selecting the right manager with the right skills is critical.

Private equity has generated outperformance over public markets generally, and particularly in the years following weak equity markets and weak economic growth periods. Analysis of private equity performance has shown that funds that deployed capital during the years that the U.S. had tepid economic growth and weak S&P 500 performance had the strongest value-add. This is because private equity funds investing capital in declining or volatile periods have the opportunity to invest at favorable prices.

**ECONOMIC ALIGNMENT**

Managers of illiquid assets generally have their interests closely aligned with their investors in several ways. First, they often commit their own capital alongside investors in their fund. In addition, they typically cannot take a profit until specific predetermined performance hurdles have been met. The better a fund’s performance, the greater the return will be to both the investors and the fund managers.

**TAX EFFICIENCY**

Investments made by private equity or other illiquid asset strategies are generally held for longer than 12 months, therefore, a significant portion of the returns can be realized as long-term gains.

No one likes filling out forms, but our Wealth Advisors and Portfolio Managers can help investors manage the complexities associated with illiquid alternative investments. It has been our experience that, for most of our clients, the illiquidity premium is well worth the trouble.

---

1 Source: Cambridge Associates LLC, Bloomberg Barclays, Standard & Poor’s. Data as of December 31, 2016. The Cambridge Associates LLC U.S. Private Equity Fund Index is a horizon calculation based on data compiled from 1,370 U.S. private equity funds (buyout, growth equity, private equity energy and mezzanine funds), including fully liquidated partnership, formed between 1986 and 2016. Private indexes are pooled horizon internal rate of return (IRR) calculations, net of fees, expenses and carried interest. Cambridge Associates Modified Public Market Equivalent (mPME) seeks to replicate private investment performance under public market conditions. The public index’s shares are purchased and sold according to the private cash flow schedule, with distributions calculated in the same proportion as the private fund.


3 Source: Golub Capital Middle Market Report 1Q 2017.

4 Source: National Center for the Middle Market, Q1 2017 Middle Market Indicator.

5 Source: Artivest, Cambridge Associates.
Striking the Right Balance in Estate Planning

By Helena Jonassen

Most high net worth families want to reduce estate taxes. But in the drive to reduce their exposure, families can inadvertently bind themselves with excessively complicated planning structures or, worse, fail to retain adequate resources to meet their own needs.

Complicated estate plans often create multiple entities to leverage the use of the lifetime federal estate tax and generation-skipping tax exemption amounts (currently $5,490,000 for each individual). They can require pages of diagrams to keep an account of the structures and the flow of assets. For large estates of $15 million or more, these plans can make sense, if the supporting infrastructure is in place to implement and administer the plan, monitor its effectiveness, manage the ongoing tax compliance and keep up with evolving legislation. But the plan has to be constantly checked to keep the complexity (and added administration costs) proportionate with the real needs of the family.

As King Lear discovered, giving too much away during one's lifetime is the other main risk in overplanning, especially as lifetimes lengthen. Most of us should expect to spend far more than our parents or grandparents did in later life, both for pleasure and for healthcare. (See the box below for some alarming statistics on the latter.)

Even couples with large estates and high rates of spending may find it best to keep assets in their names and to make use of smaller lifetime gifts – up to the annual exclusion limit of $14,000 per person, or $28,000 per couple for each donee – and to make direct payment to medical or educational institutions on behalf of their beneficiaries as needed (as exclusions for these transfers are unlimited).

In this way, they can help their family as needed while maintaining control over – and access to – their assets.

Market fluctuations can significantly impact lifestyles. While it might seem like there will be sufficient funds for the remaining years after transferring assets out of an estate, a big drop in the markets is unlikely to be accompanied by a similar decline in the cost of living. And it would be unwise to assume that inflation will remain low.

---

Long-term Care: Old Age Isn’t Cheap

- About 70% of people currently turning 65 will require some long-term care in their lifetime.
- They will receive care for an average of three years.
- 22% of long-term care costs are paid out of pocket.
- Over 10% of the population age 65 and older has Alzheimer’s disease (about 5.3 million people in 2017), and 38% of those are over 85 years old, according to Alzheimer’s Association.
- The average yearly cost of nursing home care in the United States is $92,376; in some states it’s almost double that. And that’s before the costs for personal aides or nurses.
## Smith Family

The current federal estate tax exception is $5,490,000.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Case 1: Current</td>
<td>$12,000,000</td>
<td>$360,000</td>
<td>$21,197,147</td>
<td>$10,556,372</td>
</tr>
<tr>
<td>Case 2: Current with 20% decline in asset value</td>
<td>$9,600,000</td>
<td>$360,000</td>
<td>$12,834,406</td>
<td>$6,391,651</td>
</tr>
<tr>
<td>Case 3: Gifting $5 million currently</td>
<td>$7,000,000</td>
<td>$360,000</td>
<td>$3,758,007</td>
<td>$1,871,522</td>
</tr>
<tr>
<td>Case 4: Gifting $5 million currently with 20% decline in asset value</td>
<td>$5,600,000</td>
<td>$360,000</td>
<td>run out of assets at age 88</td>
<td>$6,889,466</td>
</tr>
</tbody>
</table>

evercorewealthmanagement.com
Consider the Smiths, a couple in their mid 60s with a total estate of $12 million in financial assets. They spend a reasonable 3% of their portfolio a year, or $360,000 after taxes, and can expect their expenses to grow at an annual rate of 3%, roughly in line with projected long-term inflation rate. Their assets should grow at an annual rate of 6.1% a year to over $21 million in 23 years.* If we assume that the current federal estate tax exemption amount ($5,490,000 for each individual) grows over that same period at the assumed inflation rate of 3%, the Smiths will not have a federally taxable estate. For this couple, making a substantial gift in their lifetimes may not be appropriate, as they will not leave a taxable estate and doing so could impair their lifestyle in the interim.*

If the spending rate is greater than the 3% rate or if the rate of spending increases due to the added cost of healthcare, this couple could run out of assets more quickly. Once a baseline-planning model has been created, we can test possible planning techniques, such as the ramifications of making gifts now.

An integrated financial plan should consider the whole balance sheet – all financial and nonfinancial assets and liabilities. It should include a lifestyle analysis of income and expenses that factors in a reasonable return and accounts for illiquid assets that may not be available for cash flow needs, and an estate plan analysis that includes all current obligations and diagrams estate flow and structures.

A baseline-planning model enables advisors to test potential planning techniques. If, for example, a couple would like to make a significant gift to their heirs during their lifetime, will they have enough assets to live on in the event of a big market downturn? This type of stress test, combined with a Monte Carlo simulation that runs multiple trials with randomized rates of return within certain parameters to evaluate the probability of a plan’s success, can go a long way in ensuring that the couple can meet their own lifestyle goals.

Consider the Smiths, a couple in their mid 60s with a total estate of $12 million in financial assets. They spend a reasonable 3% of their portfolio a year, or $360,000 after taxes, and can expect their expenses to grow at an annual rate of 3%, roughly in line with projected long-term inflation rate. Their assets should grow at an annual rate of 6.1% a year to over $21 million in 23 years.*

Let’s contrast that with the Joneses, a couple of the same ages with $25,000,000 and a 3% spend rate, who experience a 20% decline in asset value immediately after making a similar gift.

In this situation, proactive planning should be considered, as the Joneses will otherwise have a taxable estate, and would certainly benefit from tax-reduction strategies that accommodate their lifestyle needs and potential market fluctuations. For example, the use of a Spousal Limited Access Trust, or SLAT, can ensure that assets are available to the surviving spouse if really needed, such as in the event of an emergency (or in the type of drawdown illustrated in the fourth scenario in each chart), but the assets and the future appreciation will eventually pass to the heirs free of estate tax.

In planning, as so much in life, it’s critical to strike the right balance. Your Evercore Wealth Advisor can help you make the decision that is right for you and your family.

* Examples assume starting ages of 66 and 67, and the death of the oldest at 90. It also assumes a 6.1% rate of return and a 3% inflation rate.

Let’s contrast that with the Joneses, a couple of the same ages with $25,000,000 and a 3% spend rate, who experience a 20% decline in asset value immediately after making a similar gift.

In this situation, proactive planning should be considered, as the Joneses will otherwise have a taxable estate, and would certainly benefit from tax-reduction strategies that accommodate their lifestyle needs and potential market fluctuations. For example, the use of a Spousal Limited Access Trust, or SLAT, can ensure that assets are available to the surviving spouse if really needed, such as in the event of an emergency (or in the type of drawdown illustrated in the fourth scenario in each chart), but the assets and the future appreciation will eventually pass to the heirs free of estate tax.

In planning, as so much in life, it’s critical to strike the right balance. Your Evercore Wealth Advisor can help you make the decision that is right for you and your family.

Helena Jonassen is a Managing Director and Wealth & Fiduciary Advisor at Evercore Wealth Management. She can be contacted at helena.jonassen@evercore.com.
A Thing of Beauty: Art & Estate Planning

By Stacie Price

For many art collectors, the most significant decision is often the last: how to dispose of the works. Collections, like the works themselves, are the product of passion, as well as a considerable investment of time and money. This aspect of estate planning can be difficult, but it’s a necessary step for anyone who doesn’t want to leave the decision to his or her executor.

Essentially, there are three broad options for securing an artwork’s next home: sell; donate to a museum or other charity; or gift or bequeath to family or friends.

SELL

Some collectors expect to eventually sell their artwork through an auction or consignment house during their lifetime. As with any sale of an appreciated asset, they will be subject to tax, along with any sales fees or commissions. Collectors, as opposed to investors or creators of art, who have held an artwork for over one year will pay a federal tax rate of 28% on the appreciation from the date of purchase.

Artworks sold as part of an estate will, under current estate tax law, receive an increase, or step up, in cost basis if they have increased in value since their purchase by the decedent, effectively decreasing any tax that may be due upon a sale. However, as a family in Minneapolis recently discovered in appraising the abstract expressionist art in a grandmother’s estate, the current market value is included in the estate for estate tax purposes. The matriarch, who had bought her first work of art as a student in Europe in the early 1950s, had built up a sizeable collection over time, sharing her interest and her knowledge with her children and then her grandchildren.

The risk for any long-term collectors is that the art, especially ones of significant emotional value, may need to be sold at an inopportune time to pay estate tax or to resolve an estate bequest, if the beneficiaries cannot or do not want to hold the artwork. Advance planning can mitigate this risk. The Minneapolis family was able to use a combination of charitable gifting, family bequests, and auction sales to keep the works they valued most in the family and dispose of the rest in a tax-efficient manner.

DONATE TO CHARITY

To avoid or offset the tax on the appreciation, collectors may wish to consider giving pieces away to charity during their lifetime. It is important to consider the attributes of the charities that are the intended recipients, as there are limits on the amount of charitable deductions that can be taken in one year and in the value of the deductions. Charitable deductions that exceed any of the limitations in the current year can be carried forward for up to the next five years, to apply to future tax returns.

Collectors who know that they want to donate their artworks to a charity but have not yet identified the specific recipient could consider establishing a donor advised fund. This enables
Every donation has its limits

<table>
<thead>
<tr>
<th>Type</th>
<th>Adjusted Gross Income (AGI)</th>
<th>Deduction Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Charity or Private Operating Charity – Related Use</td>
<td>50%</td>
<td>Cost Basis</td>
</tr>
<tr>
<td></td>
<td>30%</td>
<td>Fair Market Value</td>
</tr>
<tr>
<td>Public Charity or Private Operating Charity – No Related Use</td>
<td>50%</td>
<td>Cost Basis</td>
</tr>
<tr>
<td>Private Charity</td>
<td>20%</td>
<td>Cost Basis</td>
</tr>
</tbody>
</table>

Assumes property is considered capital gain property – held for collection use only and for over one year.

The collector to take the associated tax deduction but delay the actual transfer. There are typically no required annual distributions from these vehicles, which means that collectors can, in time, determine the ultimate charitable beneficiary. Private foundations offer similar avoidance of capital gains tax but differ from donor advised funds in that the private foundation will have an annual requirement to pay out to qualified charities.

It’s worth noting that if a public charity sells the piece within three years of the gift, collectors who took a deduction
for the full fair market value will be required to amend their previous tax return to only take the original cost basis as a deduction.

There's more to selecting a charitable beneficiary for a collection than tax, of course. An artwork may have particular meaning to a foundation that supports a related subject, for example. But the options should be considered in light of the likely impact on the collector's current tax profile and in connection with both future taxable income expectations and additional planned charitable gifting.

A bequest to charity at death will result in a full fair market value deduction on the estate tax return, with no limitations. Collectors who don’t plan to gift the works in their lifetime can reduce the estate tax on the value left in their estate by giving to charity at their death. In the interim, many museums or galleries will take pieces on loan for display. While these do not generate a charitable deduction, it is nevertheless a popular option for many collectors who are happy to see and even influence the public display of their works. An estate plan can later direct an official – and deductible – gift to the institution.

GIVE TO FAMILY AND/OR FRIENDS

Collectors with artwork that is valued within the current annual gift tax exemption of up to $14,000 for each individual, per donor, can start giving now without incurring a gift tax. If the item is valued at over the annual exclusion amount, the excess can be deducted from the allowable lifetime gift exclusion.

Should the collector decide to transfer the artwork to family and/or friends at their death, advance planning can facilitate this process. Some examples include:

• Specifically directing what happens to each and every piece.

• Giving to a surviving spouse, who can receive the artwork with the step-up in cost basis but with no estate tax through the unlimited marital deduction, with a related plan to be implemented at the second death.

• Setting up a life estate in which the surviving spouse can continue to enjoy the artwork during life, but the ultimate disposition occurs at his or her death as directed by the first decedent.

• Organizing a lottery for heirs to draw numbers to determine the order of selection. Each selection is valued based on the federal estate tax appraisal and equalized at the end of the selection process with other liquid assets in the estate.

• Engaging a qualified fiduciary to oversee a fair and equitable division to avoid potential family conflict.

If the work of art is very valuable, consideration should also be given to a gift of a fractional interest to either a charity or a family member. There are complicated procedures to follow, but it may be worth the effort. For example, a New England family that winters in Florida could consider a fractional gift that allows the art to be kept with a family member or on display at a charity during the winter months.

Many people spend years finding just the right pieces for their collections. Early planning for the art’s next home should prevent a forced decision and avoid family conflict, helping to keep the art a joy forever.

Stacie Price is a Partner and Wealth & Fiduciary Advisor at Evercore Wealth Management. She can be contacted at stacie.price@evercore.com.

1 Not all donor advised funds may allow gifts of artwork and collectibles. Each sponsoring organization will have requirements for accepting artwork and collectibles.

2 Sales and use taxes may apply and depend on state law.

Constant change should always be a consideration in trust and fiduciary planning
One of the pleasures of having grandchildren is telling stories about our past. With every retelling, the walk to school gets a little longer, the chores a little harder and, as technology advances, the contrasts a little more extreme. No, we didn’t have smart phones or tablets. Alexa and Siri didn’t exist; we used encyclopedias, and the library had books. We played games not on an Xbox or a tablet, but by using our imaginations.

As I consider the young people in my life, I know that in some ways, my generation had it easier. We didn’t go back to school until after Labor Day and, more important, we received a broad education free from the distractions of social media and most other forms of technology.

Does social media and all the other tech available to even very young children now help or hinder them in building these skills? Would I better express myself here with this? Do elected officials and even the President of the United States best express themselves in 140 characters? To my mind, the answer to all these questions is a resounding no.

The research firm 13D posed just that question the other day, asking in a note to clients: “What world do I educate my children for?” and suggesting that, “One way forward – perhaps the only way – is to concentrate on what humans do best: interpersonal skills, team building, empathy.” The goal is to be able to think critically or to, as 13D put it, “If the world looks right, look left.”

Interestingly, a classical education may be just the ticket to success in a high-tech world for job markets in which change is accelerating.

The current focus on the return on investment, or ROI, of an education (measuring lifetime earnings with and without a degree) certainly seems misguided, as well as dispiriting, when we consider both the rapidly changing marketplace and the opportunity cost. While we can all appreciate the financial pressures many young students face, how should we value, say, a multimedia or business technology course when the content is likely to be obsolete in just a few years? And how do we value a semester studying Shakespeare or religions or ethics?

I wondered just that when interviewing a young graduate. She was quite proud to...
of the fact that she had completed her degree in just two-and-a-half years, by taking on heavy class loads through the summers as well as the academic year; a strategy that she volunteered was driven by a sense of time efficiency rather than by tuition and other cost considerations. I thought to myself that it was a shame, as she had missed some important aspects of a college education. Although she could master the technical skills required to be a wealth manager, I had to wonder if she would take the time – or even had the skills – to build enduring relationships with our clients.

Forty-eight years after my own graduation, I still enjoy participating in university life as a member of my alma mater’s board, and engaging with professors and students, as well as the young people starting their careers at Evercore after degrees at top universities around the world. It goes without saying that all of them are comfortable working with technology. But so am I and many of my peers; it’s a skill that can be learned and maintained in the service of a relationship business where the goal is to add value by working with technology, not to compete at the robot’s level.

Even at the extreme heights of technology success, there is plenty of evidence of broader perspectives. Steve Jobs studied poetry and, famously, calligraphy, in addition to computer science at Harvard. Bill Gates studied law, and Mr. Zuckerberg studied psychology. (Yes, these particular gentlemen all dropped out, but they continued to pursue a broad education, as evidenced by Mr. Gates’ annual book list and Mr. Zuckerberg’s annual self-improvement projects.)

My grandchildren still have years before they need to make any decisions about college. Wherever they choose to go, I hope they look for institutions that help them think, teach them leadership skills, and imbue them with a sense of both history and humanity. And I hope that in the interim, they continue to enjoy their summers spent at camp, putting aside their computer games and smart phones until after Labor Day and beyond.

The focus on an education’s ROI seems misguided

---

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.
Consensus can be challenging. In both corporate and political environments, formal protocols guide decision-making. While some work better than others, it would be even more difficult to plan and grow without established guidelines. But what about at home?
A mission statement can reflect and express shared values, and align a family’s spending and investing to meet specific goals. Done right, the family’s mission will be a living document – one that is part of a sound financial plan, and that can adapt to changing circumstances while remaining robust enough to help shape the lives of several generations in positive ways.

If that seems easier said than done, consider that just about every family struggles with competing interests and goals. Advisors working with a family should ask tough questions about each member’s interests and concerns, and help construct a ranking of priorities that works within the family’s overall plan. Whether it’s funding educations or entrepreneurial interests, helping to purchase a home, or exploring the world together, a mission statement can help keep everyone focused.

For many families, shared philanthropic interests can provide a strong sense of purpose that can be codified to engage new members and future generations.

A mission statement can also help keep families close, even as members disperse across states and countries. A couple that relocated to Florida a few years ago was concerned that their two adult children would lose touch with each other after the sale of their New Jersey home and marriages to spouses from Oregon and London. They worked with their wealth advisor to plan an annual retreat to discuss the family’s philanthropic mission and make decisions about their foundation’s grants. The advisor in turn worked closely with the couple’s attorney, accountant, and other trusted advisors to ensure that the evolution of the mission made sense in the context of the family’s overall finances.

It’s worth noting that the parents learned from these discussions along with the children, their spouses, and oldest grandchildren, leaning increasingly to hands-on environmental causes and socially responsible investments. The younger generations were delighted to influence the process, and the family remains extremely close.

A mission statement can also help with day-to-day financial decisions, although it is not meant to replace a comprehensive financial plan. With common goals articulated, they can be used when deciding important purchases. Is it more important to buy the vacation home at the beach, or does the family want to save for travel after retirement? If the mission is to fund an education for each grandchild, how will it be impacted by spending decisions made today?

The development of a family mission statement can be soul-searching work, and the statement itself needs to be regularly reviewed and updated. But it is worth the time and effort if, as is often the case, it can serve as a guide for generations to live their lives with a shared sense of purpose.

---

1. Define the family: Does it include lineal descendants and spouses, for example?
2. Define boundaries: What does the mission statement not address? What remains confidential – and to whom?
3. Ask each family member to state their vision for the family, as well as for their own lives.
4. Collaborate as a family; consider each member’s individual core values.
5. How will the family use this mission statement? How should future generations use it?
6. Define the family’s shared values. Together, what is the goal for the family’s wealth?
7. How does this mission statement fit within the family’s overall financial plan? How will the family work with its Wealth & Fiduciary Advisor and Portfolio Manager to ensure that the mission is achievable, as market and regulatory conditions change and family circumstances evolve?
8. What is the governance plan? Will there be a family council, executive committee, an annual family meeting, and/or a family board?

---

**Setting Off On a Mission: Sample Considerations**

**Debora Carswell** joined Evercore Wealth Management in July 2017 as a Managing Director and Financial Advisor. She can be contacted at debora.carswell@evercore.com.
Better Together: Revisiting Active & Passive

Editor’s note: Evercore Wealth Management Chief Investment Officer John Apruzzese met with clients in New York on June 22, 2017 to discuss the respective merits of active and passive strategies and to describe the firm’s blended approach. Here are some of the key points. For further information on this and future investment seminars at the firm, please contact Jay Springer at springer@evercore.com or your advisors.

- Relative performance of active vs. passive funds shows that no one style always beats the market.
- While the majority of actively managed funds have underperformed their benchmark, highly active share managers with the longest holding periods are more likely to beat their benchmark on a consistent basis.
- Fund fees for active and passive strategies continue to trend lower, driven by intense competition and economies of scale.
- Inflows into passive funds substantially increased after the financial crisis in 2008 and the fund flow gap between passive and active has widened in recent years.
- Increasing capital into passive strategies potentially causes a market inefficiency, which may provide more arbitrage opportunities for active managers.
- Given the ebb and flow of active vs. passive relative performance, we believe the right blend of active and passive strategies will generate tax-efficient investment returns.

Private Wealth Education at Evercore:

- Better Together: Active & Passive Investing
- The State of New Jersey: The Outlook for Municipal Bonds
- Staying in the Game at Any Age: Discussion with Leading Physicians at Hospital for Special Surgery

Wise Women Seminars:

- Money and Meaning with Judy Stern Peck, Family Advisor, Ackerman Institute

The Longevity Challenge Events:

Evercore Wealth Management & Evercore Trust Company are pleased to present a special series of events on embracing the 100-year life. We’ll consider the mental, physical, and emotional challenges – and opportunities – afforded by dramatically lengthened lifespans, as well as strategies to plan and invest accordingly.

- The Emotional, Physical and Financial Cost of Alzheimer’s Speaker: George Vradenburg
- Thriving Amid Disruption: An Evening with Andrew Zolli

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.
Evercore Wealth Management, LLC (“EWM”) is an investment adviser registered with the U.S. Securities and Exchange Commission under the Investment Advisers Act of 1940. EWM prepared this material for informational purposes only and should not be viewed as advice or recommendations with respect to asset allocation or any particular investment. It is not our intention to state or imply in any manner that past results are an indication of future performance. Future results cannot be guaranteed and a loss of principal may occur. This material does not constitute financial, investment, accounting, tax or legal advice. It does not constitute an offer to buy or sell or a solicitation of any offer to buy or sell any security/instrument, or to participate in any trading strategy. The securities/instruments discussed in this material may not be suitable for all investors. The appropriateness of a particular investment strategy will depend on an investor’s individual circumstances and objectives. Specific needs of a client must be reviewed and assessed before determining the proper investment objective and asset allocation, which may be adjusted to market circumstances. EWM may make investment decisions for its clients that are different from or inconsistent with the analysis in this report. EWM clients may invest in categories of securities or other instruments not covered in this report. Descriptions provided in this material are not substitutes for disclosure in offering documents for particular investment products. Any specific holdings discussed do not represent all of the securities purchased, sold or recommended by EWM, and the reader should not assume that investments in the companies identified and discussed were or will be profitable. Upon request, we will furnish a list of all securities recommended to clients during the past year. Performance results for individual accounts may vary due to the timing of investments, additions/withdrawals, length of relationship, and size of positions, among other reasons. Prospective investors should perform their own investigation and evaluation of investment options, should ask EWM for additional information if needed, and should consult their own attorney and other advisors. Indices are unmanaged and do not reflect fees or transaction expenses. You cannot invest directly in an index. References to benchmarks or indices are provided for information only. The securities discussed herein were holdings during the quarter. They will not always be the highest performing securities in the portfolio, but rather will have some correlation with the benchmark. EWM obtained this information from multiple sources believed to be reliable as of the date of publication; EWM, however, makes no representations as to the accuracy or completeness of such third-party information. Unless otherwise noted, any recommendations, opinions and analysis herein reflect our judgment at the date of this report and are subject to change. EWM has no obligation to update, modify or amend this information or to otherwise notify a reader thereof in the event that any such information becomes outdated, inaccurate, or incomplete. EWM’s Privacy Policy is available upon request. EWM is compensated for the investment advisory services it provides, generally based on a percentage of assets under management. In addition to the investment management fees charged, clients may be responsible for additional expenses, such as brokerage fees, custody fees, and fees and expenses charged by third-party mutual funds, pooled investment vehicles, and third-party managers that may be recommended to clients. A complete description of EWM’s advisory fees is available in Part 2A of EWM’s Form ADV. Trust services are provided by Evercore Trust Company, N.A., a national trust bank regulated by the Office of the Comptroller of the Currency and/or Evercore Trust Company of Delaware, a limited purpose trust company regulated by the Delaware State Bank Commissioner, both affiliates of EWM. Custody services are provided by Evercore Trust Company, N.A. The use of any word or phrase contained herein that could be considered superlativite is not intended to imply that EWM is the only firm capable of providing adequate advisory services. This material does not purport to be a complete description of our investment services. This document is prepared for the use of EWM clients and prospective clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of EWM. Any unauthorized use or disclosure is prohibited. The Chartered Financial Analyst and CFA trademarks are the property of CFA Institute. Certified Financial Planner Board of Standards Inc. owns the certification marks CFP®, Certified Financial Planner™ and CFP® in the U.S. Clients referenced here have been included based on objective non-performance based criteria. It is not known whether such clients approve or disapprove of EWM or the investment advisory products or services provided. This document includes projections or other forward-looking statements regarding future events, targets, intentions or expectations. Due to various risks and uncertainties, actual events or results may differ materially from those reflected or contemplated in such forward-looking statements. There is no guarantee that projected returns or risk assumptions will be realized or that an investment strategy will be successful.

IRS Circular 230 Disclosure:

Pursuant to IRS Regulations, we inform you that any U.S. Federal tax advice contained in this communication (including any attachments) is not intended or written to be used, and cannot be used, for (i) the purpose of avoiding IRS imposed penalties or (ii) promoting, marketing, or recommending to another party any transaction or matter addressed herein. This information is provided for information purposes only and does not constitute financial, investment, tax or legal advice.