

The US economy is off of life support but a full recovery isn't likely anytime soon. It is certainly good news that the nation's gross domestic product contracted just 1% in the second quarter, after falling 6.4% at the beginning of the year, but US consumers drive nearly three quarters of economic activity and they aren't running out to make large discretionary purchases yet. Unemployment remains high and those who have jobs are shoring up their balance sheets, as evidenced by a personal savings rate that recently climbed to 5% from zero. The figure could climb to as much as 10% before consumers once again become an engine of growth.

Even though the equity and debt markets have rebounded significantly from their panic lows of March, investment opportunities remain. With the exception of cash, we see prospects in each of our main asset categories: defensive assets; inflation and dollar hedging assets; growth assets; and illiquid growth assets and special situations.

Evercore Wealth Management's Approach to Asset Allocation

Asset Class	Portfolio Objective		
	Income	Income with Appreciation	Appreciation
CASH Money Market Funds Treasury Bills Municipal Paper/Floater	0-20%	0-20%	0-10%
DEFENSIVE ASSETS High Quality Fixed-Income Municipal Bonds High Quality Corporate Bonds Agency & Government Securities Government Insured Mortgages	40-60%	20-40%	0-20%
INFLATION AND DOLLAR HEDGING ASSETS TIPS Foreign Bonds Gold Commodities	0-10%	0-10%	0-10%
GROWTH ASSETS Global Equity Domestic Equity Developed Foreign and Emerging Markets Opportunistic Fixed Income Corporate Bonds with equity-like returns Convertible and High-Yield Bonds REITS	20-40%	40-60%	60-80%
ILLIQUID GROWTH ASSETS, SPECIAL SITUATIONS Distressed Debt Private Equity and Venture Capital Opportunistic Hedge Funds Real Estate	0-10%	0-10%	0-10%

Our tactical asset allocation

With our expectations for a protracted economic recovery, we continue to recommend that investors seeking an after-tax return above inflation with some income should have no more than the mid-point of their allocation range for growth assets, such as stocks and corporate bonds. Tactically, we take the following view on our major asset categories:

- **Cash**

Cash is unattractive as most traditional cash equivalent vehicles now yield virtually 0%. While trailing 12-month Consumer Price Index was -1.4% through June, the three month annualized rate was 3.3% and the CPI is likely to be over 2% on a year-over-year basis by December 31. This means that money market funds and Treasury bills have negative real yields. The Federal Reserve is not likely to raise rates before the end of the year.

- **Defensive assets**

A steep yield curve is making defensive assets, such as municipal and corporate bonds, an attractive alternative to cash. In municipals, we are avoiding the general obligation and appropriation debt of all but a handful of states, while recommending specific high-quality tax-exempt debt and geographic diversification. We like well-researched, carefully selected essential purpose revenue bonds, including public utilities such as Aa3/AA- Tallahassee Energy System. A recent purchase for some client accounts: AAA rated by S&P Florida Board of Education Lottery Revenue bonds at yields of 1.25% to 1.30% over Municipal Market Data's AAA.

In corporates, we are staying with a relatively short duration and taking selective credit risk. High-quality industrial and systematically important financial services corporate bonds have rallied significantly but still offer value compared to Treasuries and government agency paper. There are also opportunities in BBB and BB credit. For example, we recently purchased Sprint bonds maturing in January 2011, which offer an attractive yield relative to the company's strong near-term liquidity profile and recent generation of free cash flow. We also added Dow Chemical bonds maturing in five years to the portfolio. These bonds offered attractive yields after management pushed leverage to the brink of investment grade with a poorly timed acquisition. Management's aggressive efforts to repair the company's balance sheet recently paid dividends for bondholders.

- **Inflation and dollar hedging assets**

The risk of accelerating inflation beginning within two years or so must be taken seriously as a result of current monetary and fiscal policy. As a result, many of our client accounts have some exposure to gold and/or TIPS. However, record low capacity utilization, high unemployment, weak consumer demand and cheap foreign labor competition make deflation the more immediate threat.

- **Liquid growth assets**

We are at the mid-point of our asset allocation range for growth assets, because no one can say with certainty how strong the economic recovery will be. In stocks, better-than-expected corporate profits recently helped push the market to nine-month highs but the profits were largely a result of cost savings through layoffs – and revenues continue to disappoint. The stock market is more fairly valued based on current fundamentals and we are emphasizing higher quality names, which have been selling at the greatest discount. Specifically, companies such as Apple (nasdaq:AAPL) and MasterCard (nyse:MA) have the ability to grow in difficult times. For its part, MasterCard – which gets paid on transaction volume and does not extend credit – should grow nicely domestically and internationally.

With a relatively conservative allocation to liquid growth investments, we are comfortable being a bit more aggressive within the category, allocating money to emerging markets ETFs, with an emphasis on Brazil and China. High-yield bonds should be viewed cautiously, given their default prospects.

- **Illiquid growth assets and special situations**

As a category, illiquid growth assets and special situations are not particularly compelling but distressed debt is interesting. Evercore Wealth Management expects to recommend one or two distressed debt managers shortly.

Wealth transfer planning opportunities

The current challenging economic environment offers a compelling opportunity for clients to execute a variety of wealth transfer planning initiatives. Most significantly, depressed valuations for real property, financial assets and business interests – combined with current low interest rates – present an historic opportunity for families to transfer assets to younger generations at a discount to their future expected value. Grantor Retained Annuity Trusts, intra-family loans and installment sales to defective grantor trusts are all popular strategies that may be particularly attractive in today's environment.

Our business

Evercore Wealth Management recently opened a San Francisco office, expanding our footprint to the West Coast. Evercore Trust Company is serving as our custodian of choice and as corporate trustee and executor for our clients, whom we thank for placing their trust in us; we are now managing over \$1 billion in assets. Our clients have joined Evercore Wealth Management because they believe in our integrity, experience and approach to managing wealth.

Important Notice: Evercore Wealth Management, LLC is registered with the Securities and Exchange Commission under the Investment Advisors Act of 1940. Please note that certain of the information contained in this document has been taken from trade and statistical services and other sources which we deem reliable. All diagrams are for illustrative purposes only. Specific needs of a client must be reviewed and assessed before determining the proper allocation for a client and must be adjusted to market circumstances. We do not represent that such information is accurate or complete and it should not be relied on as such. Any opinions herein reflect our judgment at this date and are subject to change. Upon request, we will furnish a list of all securities recommended to clients during the past year. This letter does not purport to be a complete description of our investment services. It is not our intention to state or imply in any manner that past results are an indication of future performance.