

# Independent *thinking*

*Structuring and Managing  
for Growth*

*Roger Altman on the Emerging  
Global Economy*

*Equities, Fixed Income and  
Diversified Hedges*

*Planning: Transferring Wealth*

*Golub Capital on  
Middle Market Lending*



The *Growth* Issue

## Cultivating Growth Through Goals-Based Investing

**The consensus on Wall Street** is that a very long winter has passed. Stocks and bonds in U.S. companies have returned to pre-credit crunch levels and consumer confidence is strengthening. Still, many private investors are held fast in the icy grip of recent experience, more fearful of rushing the market than failing to achieve growth.

They have good reason. The economic events of the past three years have shattered confidence in the comfortable complacency shared by most financial advisors, reminding us all that traditional proscriptive investment plans can jeopardize financial security and thwart aspirations. And, while we see real opportunities across most asset classes, both in the United States and in other markets, we also see significant risks.

But inaction carries its own risks, especially in combating inflation. Portfolios left untended will be more subject to event risks, taking with them the aspirations of individuals, families and related institutions. The starting point to confident investing, as

discussed in previous issues of Independent Thinking, is to assess an individual's specific goals and true tolerance for risk and to create in that context a strategic wealth plan that evaluates his or her entire financial circumstances, across existing holdings and related tax and family entities. The next steps—and our focus here—are to design an investment portfolio (or portfolios—more about this later) and to structure and manage assets accordingly.

The real needs of private investors can be counterintuitive. Individuals planning for retirement are often focused exclusively on principal protection and income preservation. For some, that's the right approach and we construct a current-income preservation portfolio for their total wealth that is designed, and regularly recalibrated, to adjust for inflation and for the timing and amount of investment and spending. (Spending in down markets requires additional investment and/or higher returns to restore principal value.)

*(continued on page 3)*

# A message from the CEO

## Spring's return

after one of the coldest winters on record feels like a gift. Lasting recovery after the worst recession since the 1930s feels like recompense overdue, even after six quarters of consecutive growth. Still, there are signs, as precarious and varied as the 136 different kinds of weather Mark Twain counted on a single spring day in New England. But they are there nonetheless.

In this issue of Independent Thinking, Roger Altman, the founder and chairman of Evercore Partners, describes the world economy as split between areas of subdued or nonexistent growth and those where the so-called global recession made hardly a dent and are continuing to grow at a remarkable pace. His take reinforces our view that some of the most attractive growth opportunities for U.S.-domiciled investors are now in multinationals with significant markets in developing countries and in selective foreign debt.

Investing in growth for its own sake, however, is as likely to result in long-term pain as short-term gain. Here, Chris Zander describes our growth investment strategies in the context of individual and family goals and attitudes toward risk. While this article concludes our three-part review of goals-based investing, it remains a subject close to our hearts and one on which you will certainly hear from us again. Goals-based investing is one of the key strengths of our firm and an ongoing expression of our commitment to our clients' best interests.

Other contributors to this issue also address the subject of growth, from the perspective of their individual disciplines. Bill Vaughn and Brian Pollak visit the outlooks for, respectively, U.S. equities and non-U.S. dollar denominated bonds. John

McDermott revisits our diversified market hedges strategies and Karen Francois considers the critical factors in designing a trust and selecting trustees. Outside the firm, Lawrence Golub, President of Golub Capital, shares his thoughts on middle market lending. His investments, like those we make on behalf of our clients, are made as much with a view to managing risk as they are to returns.

Many private investors are still understandably cautious about seeking growth in this global economic and political environment. But we at Evercore

Wealth Management see real opportunities now, both at home and abroad.

As always, please feel free to contact any of the partners here at Evercore Wealth Management to discuss the topics in this issue or with any other questions or comments you may have. We welcome your views and expect that Independent Thinking, like all undertakings at our firm, will be the product of continuing conversations with our clients.



Jeff Maurer  
Chief Executive Officer

Jeffrey Maurer  
Partner and CEO



### Editor's note: Events in Japan

*As we go to press, we are reminded by unfolding events in Japan that we, both as individuals and as investors, face – and will always face – large and unknown risks. As investors, our best defense is a well-diversified portfolio and asset allocations that have the appropriate overall risk rating for each client's specific objectives. As the discussions turn to recovery for the world's third-largest economy, we will be mindful that most large natural disasters prove net neutral in economic terms but can reorder economic activity as governments and companies rebuild. At writing, we have less than 1.5% of our total equity portfolio invested in Japan and no additional exposure. We will be revisiting our allocations as the Japanese people start to look forward to better days.*

## Disclosures

Evercore Wealth Management, LLC is registered with the Securities and Exchange Commission under the Investment Advisors Act of 1940. This material was prepared for informational purposes only and should not be viewed as advice or recommendations with respect to asset allocation or any particular investment. It does not constitute an offer to sell or a solicitation of an offer to buy any particular security, nor does it constitute a recommendation to buy, sell or hold such security. 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. The information here was obtained from multiple sources believed to be reliable as of the date of publication, but we make no representations as to the accuracy or completeness of such third-party information and have 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. Any opinions herein reflect our judgment at this date and are subject to change. This material does not purport to be a complete description of our investment services. Upon request, we will furnish a list of all securities recommended to clients during the past year. It is not our intention to state or imply in any manner that past results are an indication of future performance, which may vary. Future results cannot be guaranteed and a loss of principal may occur.

## COVER STORY:

# Cultivating Growth through Goals-Based Investing

(continued from page 1) For others, the perceived risks can be disproportionate to their actual circumstances and they are potentially shortchanging themselves and their heirs. For these individuals, distinct and prioritized asset pools with a clear purpose enable them to allocate capital across multiple objectives—a new business, for example, or a philanthropic legacy. In other words, we seek to effectively ring-fence lifestyle needs before investing for growth. A balanced growth pool can be designed to maintain purchasing power and liquidity, for example, while a long-term appreciation pool can potentially enhance returns by assuming additional risks, such as concentrated assets or illiquidity.

For a still small, but possibly growing faction, overconfidence is becoming an issue. Strong returns in some markets have excited their investor spirits and they are eager to recover the losses of the past few years. They too need to be mindful of their long-term goals and consider their real appetite for risk in that context—and across their holdings.

At Evercore Wealth Management, all conversations begin at the strategic level and then drill down to the proper allocation for each objective to ensure that the client is fully engaged before discussing specific investments for each asset pool. We fund each asset pool according to its specific purpose and across five distinct asset classes: cash; defensive assets; growth assets; diversified market hedges; and illiquid growth and special situations assets.

One client, a financially conservative investment banker in his late 40s, described this portfolio construction process as liberating, allowing him to implement a plan constructively instead of putting off the decision. Prior to the reconstruction of his portfolio, this

relatively young banker was largely invested in highly rated cash securities and fixed income; these are now confined to his current income preservation pool and the remainder is invested in high growth equities and opportunistic credit. As a significant proportion of his pay is awarded in shares in his firm, most of which have yet to vest, only a modest proportion of his total assets are invested in additional illiquid investments. As these shares vest and are diversified, the proceeds will be reinvested and used to rebalance the portfolio over time as his objectives evolve.

He is, however, also invested in our diversified market hedges portfolio, an allocation that supports disciplined and confident investing across his growth portfolios. The allocation was decided when, in one of our quarterly meetings, we displayed our purpose-based asset grouping across both the investments that he entrusted to Evercore Wealth Management and those outside the firm, including the concentrated stock in his company and an investment real estate holding. (We review each client's entire investment capital base to ensure that we are giving integrated advice.) Within minutes, it was clear to him that he needed a greater allocation to diversified market hedges, especially given his negative views on the event risks associated with government policy imbalances. **(Editor's note: for more information on the Evercore Diversified Market Hedges portfolio, see John McDermott's article on page 7.)**

We will be revisiting his allocations over the coming months, adjusting as his circumstances and our collective market views evolve, but staying focused on meeting his goals. It is important to note that each goals-based asset pool will have a different total return profile, income and

liquidity characteristics and maximum drawdown outcomes. As clients develop different family entities, such as a long-term trust for heirs or a family foundation, the allocations among the broader pools may change to accommodate each of these entities' specific objectives.

At the wealth management firms that practice true goals-based investing, this approach to asset allocation by purpose and priority enables the advisor to remain focused on meeting or exceeding the client's specific goals, mindful of their prioritization and related time horizons, as opposed to the short-term performance of specific investment products. It also enhances communication, keeping the client and his or her advisors on the



same page. More importantly still, an investment portfolio that is structured and managed in line with the individual investor's specific goals and tolerance for risks allows the private investor to protect and grow assets in all weathers.

*Chris Zander is a Partner in the New York office and the National Head of Strategic Wealth Planning. He can be contacted at [zander@evercore.com](mailto:zander@evercore.com).*

# Shifting Lanes in a Twin Track World

by  
**ROGER ALTMAN**

*Roger Altman is the Founder and Chairman of Evercore Partners, a leading global independent investment banking advisory and asset management firm. He has also served as the Deputy Secretary of the U.S. Treasury. Evercore Wealth Management is backed by Evercore Partners.*

**There are two key** global economic trends manifesting themselves right now. One is the notably slow recovery in the developed world. Growth in the U.S. has resumed, of course, and 2011 and 2012 should be decent years. But, they will be distinctly subpar compared to past recovery growth rates. Moreover, Europe is barely growing, and Japan is flat to down.

The other trend is the continued strong growth in the big emerging markets, especially China, India and Brazil. By any

historical standard, their growth rates, generally 8% to 10%, are stunning. While there are factors which could interrupt these, the outlook for their continuation is good. In other words, it is now a two-track global economy.

This slow world/fast world dichotomy emerged over the past five years, but was made especially sharp by the global financial crisis and The Great Recession which it caused. In essence, the developed world was crippled by these events, while the big emerging markets emerged largely unscathed. It is worth examining how these impacts differed so markedly.

One factor particularly stands out. The financial systems in America and Europe are open market ones. As a result, they were fully exposed to the orgy of excess leverage and subprime mortgage origination which swept through global finance over the 2004-2007 period. In both regions, overleveraged banking systems suffered catastrophic losses when defaults soared. As we all know, an unprecedented series of national bailouts were required. Further, these systems are still restructuring themselves. That is why U.S. loans to businesses fell every month for nearly two years before finally turning up last quarter.

In addition, households, especially in America, felt wealthier on account of the housing boom and also borrowed at unprecedented rates. At the housing peak, debt of the average U.S. household equaled a breathtaking 140% of its income. Like

the banks, households are still fixing their balance sheets and still are less than halfway to historically normal debt/income relationships. Yet, with consumer spending accounting for 70% of American GDP, it just isn't possible to generate a

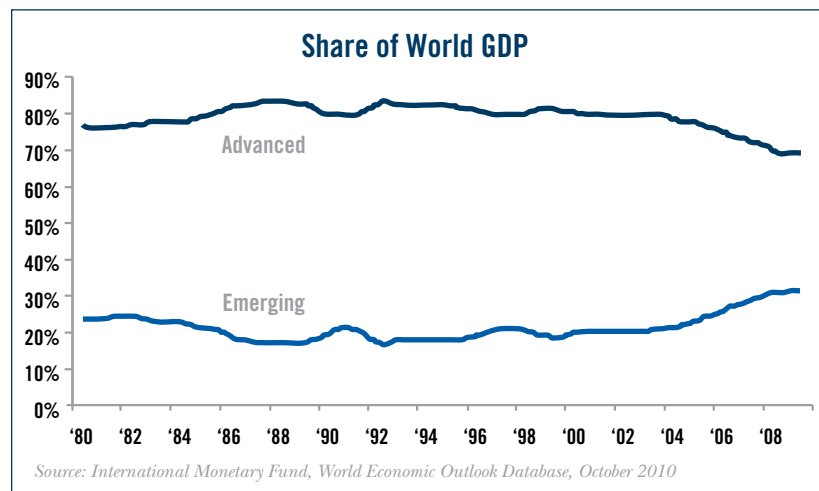


**Roger Altman**  
*Founder and Chairman  
Evercore Partners*

strong recovery with households strapped like this, and banking systems, too.

When the crisis hit, however, America acted forcefully. It implemented huge central bank easing, direct investments into key financial institutions, and a big fiscal stimulus program. It also has the long-term advantage of a relatively younger and growing population. Neither Europe nor Japan had any of these advantages. As a result, U.S. growth at least reached 2.8% last year and may approximate 4% this year. In comparison, Europe is stuck around 1.5% growth through next year, and Japan's aging and falling population is making it impossible to see growth there. These three regions still account for a majority of world GDP at current exchange rates, but that is about to change.

That is because the financial and household sectors in the big emerging markets were insulated from the credit market collapse. At one level, private



savings rates in China and India are far higher than Western ones, and consumers don't have access to large borrowings. At another level, the banking systems are more heavily and conservatively regulated and are not large offshore leaders. The overall result was that the global financial crisis did not infect these nations. Their lending capacity is strong.

In addition, the key developing countries have powerful economic momentum. This is being driven by

technology, urbanization, infrastructure development, foreign investment and the sheer size of the internal markets in these nations. For example, China's domestic vehicle market already is larger than America's, even though less than 10% of Chinese citizens own a car. And, India's population, much younger than China's, is likely to reach 1.5 billion by 2020.

This split-screen global economy is likely to persist for some time. It is

forcing multinational CEOs centered in the developed world to reposition their businesses as rapidly as possible towards the big emerging markets. That is usually a lengthy and laborious process, given the regulated nature of those markets, but it is job one for them.

It also is impelling all global investors to weight themselves increasingly towards the developing world. That is not a new trend, but it is more powerful than ever now.

---

# Core Capabilities

## Equities:

### *Equity Believers*

by **BILL VAUGHN**

**Why, when the United States** is faced with so many economic challenges do we continue to recommend that U.S. equities constitute a meaningful portion of most of our clients' portfolios?

After all, domestic growth is trailing that of other countries, notably several in emerging markets, as addressed by Roger Altman on page four. And while it may make sense to participate in an economic recovery, no matter how tentative, what happens next?

The reason is simple: we see a good number of U.S.-based companies that can deliver superior profits to shareholders. Indeed, many of the long-running secular forces for earnings growth are only getting stronger. Revolutionary technological progress has driven efficiencies increasing productivity and profitability. Workers are better trained and educated and taken from a talent pool that is now global.

The Internet has broadened markets and potential customers for even the smallest businesses. Even the social networking revolution has enabled companies to reach potential customers in a far more targeted manner than traditional broadcast advertising.

Identifying the best of these is of course the hard part. We want to invest in the companies likely to grow profits now and, more importantly, over the long term faster than their competitors.

Consider the personal computer industry, an American success story in aggregate but with big – and growing – differences among the players. Apple Computer has enjoyed a period of success unlike few companies ever have. Over the past five years, Apple's earnings have grown 60% per year. Likewise its stock price has grown 60% per year. In contrast, Dell, once the dominant computer company, has seen its earnings decrease 6% per year over the same period. And its stock price has declined at a rate of 8% per year.

Our research suggests that Apple should continue to grow its earnings at 20.5% per year while Dell's forecasts are



for 4.5% annual earnings growth. If that differential holds true, we would expect the difference in stock returns to continue as well.

Here, earnings growth and stock performance have moved closely in tandem. But this is not always the case: earnings and stock prices often appear disconnected. Over the decade of the 2000s, the S&P 500 constituent reported earnings grew 54%, yet the S&P 500 index was down 5%. This type of detachment can lead to periods where we may feel that equities are overvalued or undervalued. As we outlined in our last issue of Independent Thinking, there are many attractively valued stocks when viewed through a number of valuation metrics. With inflation and interest rates at benign levels, solid earnings growth should drive attractive equity returns.

At Evercore Wealth Management, we rely on rigorous equity research and we believe in equities, volatility over the past decade notwithstanding. We do not make decisions based on computers using mathematical algorithms and we are not traders. We look for companies that we believe will be worth materially more years from now, which would then translate to returns for our clients.

*Bill Vaughn is a Partner and Equity Portfolio Manager at the Evercore Wealth Management office in San Francisco. He can be contacted at [vaughn@evercore.com](mailto:vaughn@evercore.com).*

---

## Fixed Income: *Off the Beaten Track*

by **BRIAN POLLAK**

**U.S.-domiciled investors** searching for growth should consider an allocation to selective foreign bonds. But not to the usual suspects.

Yen, sterling and the euro make up a significant percentage of global currency

not colored green. However, all three have associated risks similar to those of the dollar. It is our view that the currencies with the most attractive flight-to-quality characteristics at present are the Canadian dollar, the Brazilian real and the Norwegian krona.

These denominations in aggregate are backed by more stable housing and banking sectors and by smaller fiscal budget deficits or even, in the case of Norway, a surplus. They have healthier prospects for GDP growth, more stable monetary policies and significantly less debt than their larger and more profligate counterparts.

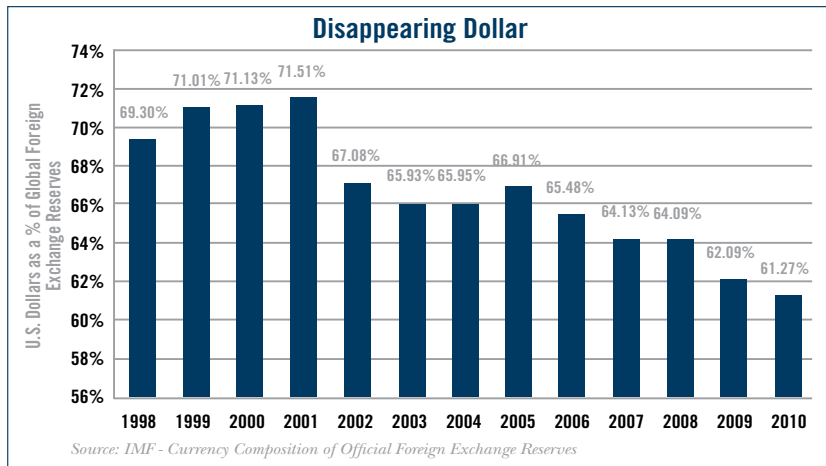
Historically, currencies with structural debt issues would have high interest rates. But government bonds in these three countries now all offer higher yields than are available in the United States, the United Kingdom, Japan and Germany.

Since October of 2009, Canada has increased its central bank's policy rate by 0.75% to 1.0%, Brazil by 2.5% to 11.25% and Norway by 0.75% to 2.0%. Continuing hawkish monetary policy will ensure that these currencies remain an attractive destination for capital flows.

What of the United States? As Roger Altman says on page four, the recovery underway likely won't be as robust as previous rebounds, and domestic growth should continue to underperform that in many other markets. Our central argument for currency diversification stems from the elephant and the 800 lb gorilla in our own backyard: excessively easy monetary policy and the long-term structural deficit.

The elephant: Between what is now known as Quantitative Easing 1 and 2 (QE1 and QE2), the United States' monetary base has more than doubled,





and excess reserves in U.S. deposit-taking institutions currently stands at over \$1.1 trillion, up from \$46 billion in August of 2008. This has already led to a drop in the value of the dollar relative to most other global currencies, and we are beginning to see early signs of significant inflation, especially in emerging market economies. Much of QE has yet to be executed, and the

Fed's exit strategy from the program will be tortuous at best. And that is assuming an end is in sight. If consumer spirits prove not yet powerful enough to drive growth on their own, policy makers may be forced to think the near unthinkable and print money yet again.

The 800 lb gorilla: The fiscal deficit in the United States is enormous by any measure, at an anticipated \$1.5 trillion in 2011, or approximately 10% of GDP according to the Congressional Budget Offices' (CBO) projections. Much of this is cyclical, but even according to the CBO, which assumes relatively rosy GDP projections, the deficit will not dip much below 3% of GDP over the next 10 years. That compares with a deficit gap of 1.7 % on average in the 60 years before 2009. This is a structural problem that will not be resolved until issues around long-term government liabilities, such as Medicare and Social Security, are restructured.

The UK, the euro zone and Japan all have similar long-term liabilities and debt challenges. This suggests further debt issues in these currencies, for which investors will demand greater yield.

Private investors should also consider that global foreign exchange reserves are already being diversified (*see the chart above*). According to the IMF, the U.S. dollar's share of official global foreign exchange reserves fell to 61.3% in 2010, from 71.5% in 2001, and fell to 64.1% in 2007. And major central banks are continuing to wean themselves from dollar dependence. Much of this money

should ultimately flow into the other major currencies and gold, but some may find its way into the smaller but more economically stable currencies we favor, which in turn will support their exchange rates.

There are always risks when investing in foreign currencies. The currencies we prefer have all appreciated relative to the U.S. dollar over the past two years and could fall if central banks in the U.S. and Europe begin a cycle of tightening monetary policy. But, the higher relative yields available in these currencies, the longer-term structural issues in the major currencies, and the continued global trend toward diversification of foreign exchange reserves all argue well for an allocation in a fixed income portfolio for U.S. dollar-based investors of between 5% and 10% to these currencies.

*Brian Pollak is a Fixed Income Portfolio Manager at Evercore Wealth Management, responsible for managing taxable bond investments. He can be contacted at [brian.pollak@evercore.com](mailto:brian.pollak@evercore.com).*

## Diversified Hedges:

### *The Seen and Unseen*

by **JOHN McDERMOTT**

**The same factors that** are propelling current stock and bond returns – easy money from central banks, deep government deficit spending, growing government debt pledges – are at the same time imperiling future stock and bond returns. While private assets look safe and appealing on their own, public assets and government economic actions must be considered in valuing securities, and here the story could not be worse.

What is a dollar worth when its quantity has doubled? What is the risk-free rate when the largest buyer of government debt





is the same government that issues it? How can capitalism find efficiencies in a global market increasingly facing capital controls and outmoded currency regimes?

These are some of the issues we are thinking about in managing the Evercore Diversified Markets Hedges portfolio. It's our job to protect against risks that are otherwise unaccounted for and to enable investors to invest with confidence across asset classes, seeking to preserve capital without sacrificing upside.

There's plenty to consider. The basic building blocks of finance and investing – the value of a currency, the certainty of a risk-free rate, the reliability of sovereign debt – were bargained and are still being bargained to fight the last recession. Recessions clear the decks of capitalism. Unpayable debt gets restructured. Uneconomic enterprises cease operating. Fallen asset prices attract investors and entrepreneurs whose early gains reinvigorate economic spirits. The last recession failed these tasks. The downturn's losses were simply transferred to the public ledger. Results so far point to success but history holds few examples of similar decisions ending well.

Unintended consequences have begun to take hold, as evidenced by rising inflation in much of the world. We now see pockets of hyper-inflation, major governments that skirt default and significant growth consequences for actions taken to bail out flawed and bankrupt structures.

The diversified markets hedges portfolio is slightly more than two years old, about the same amount of time that U.S. investors have lived with terms such as quantitative easing and stimulus. The strategy remains liquid, unlevered and individually owned by each client.

*“Unintended consequences have begun to take hold, as evidenced by rising inflation in much of the world.”*

At present, the portfolio has currency investments in countries holding down the value of their money, debt investments in countries with sound monetary policy and attractive yields, and equity investments in assets likely to reprice swiftly in any inflation outbreak, including oil and real estate. The portfolio invests on the short side against currencies being propped up by government policy, against bonds supported by government buying, and against equities subject to contractionary fiscal and monetary decisions. Investments are diversified, around the globe.

Today, the portfolio is invested to capitalize on fiscal and monetary policy that is too easy in some economic zones and too tight in others. Policy is

decoupling in a way capital markets could not do on their own and the portfolio seeks to profit from it. A risk to our strategy is that policy makers will deliver just the right amount of support to private markets, as well as removing it at just the right time and to just the

right degree. Despite all skepticism, this is not an impossible occurrence. But we are comfortable betting against it.

Since inception in January 2009, the portfolio added to returns and reduced risk in broader accounts. The portfolio has thus far been inversely correlated to U.S. bonds when bonds decline and positively correlated when bonds advance. The portfolio holds numerous attractive yield investments and has displayed a largely independent return pattern from the S&P 500 and global stock indices. The investment approach, in our judgment, remains as relevant today as it was at inception.

*John McDermott is a Partner and Portfolio Manager at Evercore Wealth Management. He can be contacted at [mcdermott@evercore.com](mailto:mcdermott@evercore.com).*



# Planning: *Transferring Wealth*

by **KAREN FRANCOIS**

*A family's estate plan is an expression of values and priorities. It needs to be integrated with a solid platform for investment management and sound tax and personal planning.*

**Lifetime or testamentary trusts** in an estate plan can help a family navigate a wide range of changing circumstances, including multiple economic and market cycles, different tax climates and changes in domicile, as well as births, deaths, marriages and divorces. A well-designed trust will accommodate these events and help the family's advisors implement a prudent plan to meet long-term objectives.

Crucial to the success of any estate plan is the estate planning attorney's relationship with, and understanding of, the family's goals and its particular needs. The attorney, other family advisors and family leaders must work together to ensure that the family's goals and objectives are adequately provided for under all possible scenarios. The plan will generally include a number of documents that, in effect, memorialize the goals that have been identified after substantial discussion with family leaders. The primary documents will usually include various types of trust instruments and a will that defines the purpose of the trust, its beneficiaries and direct how each trust is to function.

Choosing the right trustees is critical to the success of the plan. An impartial but knowledgeable trustee should be able to make objective judgments when dealing with beneficiaries who may have varying and conflicting interests. A trustee needs to be compassionate, yet firm when necessary. A trustee also needs to understand investments to make sure that investment

decisions tie the trust assets to family goals. It is often difficult to find these qualities in one trustee; we recommend that clients consider an institution, as well as a trusted individual or family member to serve as co-trustees.

It is in the context of varying and conflicting interests and a changing economic landscape that makes investment planning for a trust crucial. Often trustees are given broad discretion in a trust to provide for a beneficiary's comfort and welfare in a style to which they have grown accustomed. Some trusts go further and provide that the trustee does not have to look at the beneficiary's own assets and also may pay out all trust assets. How should that trust be invested? A trustee needs to understand the meaning of the discretionary authority and translate it into a goals-based investment plan to sustain the purpose of a trust and achieve its desired objectives. In the situation described, an investment plan should consider protecting the real spending power of the trust and may also consider an approach that would annuitize the assets at the expense of the remainder interests. A traditional investment plan seeking to balance between the needs of current income beneficiaries and those of a remainder class would be less likely to produce a satisfactory result.

On the other end of the spectrum, trusts are often created in which the creator is providing for future generations, and the current beneficiaries are not anticipated to

draw on the trust except for emergencies. The investment plan for this generation-skipping trust should have a long time horizon, and the trustee should focus on growth investments and illiquid growth investments where the investor can use the long time frame to their advantage.

When we serve as a trustee or advise trustees<sup>1</sup>, one of our primary tools is an Investment Policy Statement, or IPS, that outlines the investment plan for the trust and provides for a sustainable process. A well-drafted IPS will help trustees and beneficiaries focus on meeting specific goals and not focus solely on the relative performance of specific asset classes. The IPS also promotes meaningful communication as the IPS is reviewed and evaluated each year.

The process of managing and planning for the transfer of wealth is a fluid one and requires each of the participants in the process to have open and meaningful lines of communications that ensure a clear understanding of the goals and objectives and the method of achieving them. Our client-focused approach to fiduciary management is designed to identify not only each of our client's goals, but the true prioritization of those goals.

*Karen Francois is a Partner at Evercore Wealth Management and is responsible for client service and fiduciary planning. She can be contacted at [francois@evercore.com](mailto:francois@evercore.com).*

1. Trustee services are provided by our affiliate, Evercore Trust Company, N.A., a limited purpose national trust bank regulated by the office of the Comptroller of the Currency.

**Editor's note:** Golub Capital's investment funds make debt and equity investments in U.S.-based middle market companies, partnering with strong management teams in businesses with established operating cash flow and sustainable proprietary positions in their markets. Buy-and-hold products range from \$10 million to \$75 million, with additional capital available for future growth. The firm also underwrites and syndicates senior loans up to \$200 million for independent companies and transactions supported by financial sponsors; investment structures include refinancings, recapitalizations, traditional buyouts and growth financings. For further information on Golub funds and Evercore Wealth Management's efficient architecture platform and range of non-proprietary funds, please contact Chris Zander at [zander@evercore.com](mailto:zander@evercore.com) or any of our other partners.

Here we interview Lawrence Golub, President of Golub Capital.



Lawrence Golub  
President  
Golub Capital

**Q:** *What is the economic outlook for middle market lending?*

**A:** Middle market lending by proven credit-focused asset managers is well positioned to deliver attractive absolute returns to investors. There is sustained high demand from the hundreds of billions of dollars

that private equity funds need to spend in the two or so years and a good backlog of refinancing. At the same time, the supply of middle market debt capital is constrained because the illiquid nature of the asset class restricts the flows of funds into the business. Also, loans are being underwritten with lower levels of leverage. We expect continued low credit losses and, consequently, higher returns.

**Q:** *Are banks or hedge funds re-entering the market?*

**A:** Some regional banks have reactivated their lending to middle market companies, focusing primarily on traditional commercial borrowers rather than LBO lending. If a borrower can fit its loan into the tight structure requirements of banks (high amortization, tight covenants, low leverage) they can in some cases arrange senior bank debt at rates lower than what a finance company lender would provide. But in these transactions there is often an opportunity for mezzanine lenders to make attractive junior capital loans. We do not see any material return of the hedge fund lenders.

**Q:** *How about the financing environment? Is the health of the underlying companies improving? Does that vary by geography or by industry?*

**A:** From a lender's perspective, flat profits are good enough. The economy and almost all of our borrowers are doing better than that; however, through our glasses, the economy is performing quite nicely. We think inflation may pick up so pricing power is even more important in our underwriting than usual.

**Q:** *What strategic opportunities do you see in middle market lending, both to grow returns and reduce risk?*

**A:** In middle market lending the best and only way to outperform is to minimize credit

losses over the business cycle. We focus on getting paid back even if things go poorly by aligning the incentives of the deal-makers with the returns to investors. Discussions in our investment committee are about how we will get paid back, not about the fee opportunities.

**Q:** *How do you describe your investment process, including the origination and structure of the loans? How does that compare with your competitors?*

**A:** We have three big advantages: our people, our product line and our process. Our salespeople are senior deal-making originators with a minimum of 10 years of experience and they are compensated in large part on the overall profitability of the long-term results, not on volume.

Because we have the broadest product line in the industry, we can offer senior debt, one-stop loans and/or mezzanine debt. We pride ourselves on saying no to deals we don't love early, giving our reasons why and even helping the companies find other lenders for deals we turn down. Our credit losses through the last credit cycle were about 40% of the market average. Every dollar of savings is extra profit.

Private equity firms generally seek out senior debt first. We are one of the top-three senior lenders in our market as ranked by Thomson Reuters for 2008, 2009 and 2010, so we see the vast majority of deals very early. We are the only top senior lender who provides both one-stop lending and mezzanine financing.

**Q:** *How does this approach help investors in your fund?*

**A:** Last year we saw about 1,800 distinct transactions and only invested in about 3% of them. That is how we have historically achieved low credit losses and attractive returns. If you think about it, we are an

operating business that funds itself through investment funds.

**Q:** *What should investors expect in terms of liquidity?*

**A:** We use multi-year lock up limited partnership structures. In our current offering there is a six-year reinvestment period, so an investor would have to prepare their money to be working six years with a gradual return of principal over the following three years. Keep in mind, though, that we pay out profits quarterly. So it is really just the principal that is illiquid. The return gets paid out every quarter.

**Q:** *How much leverage do you employ? How do you manage that?*

**A:** In our leveraged funds we run about \$2.50 to \$3.00 of leverage for every dollar of equity. This is low considering that about 80 % of the assets in the fund are senior secured debt that retains considerable value even when it defaults. Banks lever 15 to 20 times equity. We are never complacent about the risks of leverage, however. We maintain extremely high levels of diversification with no loan accounting for more than a few percent of the fund, and diversification by issuer and even private equity sponsor.

# Evercore | Wealth Management *News*

## *Evercore Wealth Management Hosts Seminars in New York and San Francisco*

About 50 investors joined Evercore Wealth Management partner Gary Gildersleeve and head of municipal bond research Howard Cure at the firm's New York headquarters on March 8th for a discussion on the current opportunities and risks in the municipal bond market. To view this team's latest thinking, please visit <http://www.evercorewealthmanagement.com/publications.asp>. Also, on March 8th, the Evercore Wealth Management office in San Francisco hosted a seminar on the ethical dilemmas facing trust and estate practitioners. The event, which followed the success of a similar gathering in New York last October, featured partners in the firm and guest speakers. For further information on these and future events, please contact Wendy Barasch at [wendy.barasch@evercore.com](mailto:wendy.barasch@evercore.com).

## *Evercore Wealth Management Featured in Barron's, the Wall Street Journal and The New York Times*

Several of the firm's partners and investment experts have been quoted in the leading national financial publications on a range of topics, including estate planning, fixed income investments and the Evercore Diversified Hedges portfolio. For further information on these and other Evercore Wealth Management media interviews, please visit [www.evercorewealthmanagement.com/news.asp](http://www.evercorewealthmanagement.com/news.asp).

## *Contacts:*

### **NEW YORK**

Evercore Wealth Management  
55 East 52nd Street  
New York, NY 10055  
212.822.7620

**Jeffrey Maurer**  
Partner and CEO  
212.857.3105  
[maurer@evercore.com](mailto:maurer@evercore.com)

**Wendy Barasch**  
Partner  
212.822.7604  
[wendy.barasch@evercore.com](mailto:wendy.barasch@evercore.com)

### **SAN FRANCISCO**

Evercore Wealth Management  
3 Embarcadero Center  
San Francisco, CA 94111

**Iain Silverthorne**  
Partner  
415.229.8084  
[silverthorne@evercore.com](mailto:silverthorne@evercore.com)

### **EDITORIAL AND MEDIA**

[info@kensingtonprivate.com](mailto:info@kensingtonprivate.com)

**Aline Sullivan**  
Editor  
203.918.3389 or  
(011 44) 7854 885 181  
[aline@kensingtonprivate.com](mailto:aline@kensingtonprivate.com)

**Sally Cates**  
914.671.5478  
[sally@kensingtonprivate.com](mailto:sally@kensingtonprivate.com)

# Evercore | Wealth Management

## THE NEW STANDARD IN WEALTH MANAGEMENT

The Evercore Wealth Management standard is rooted in client relationships, shaped by our investment expertise and secured by the backing of a powerful, like-minded institution. Our firm is founded on three core principles: independent advice; undiluted investment expertise; and the value of partnership.

For more information, please visit [www.evercorewealthmanagement.com](http://www.evercorewealthmanagement.com) or call us at 212.822.7620 or 415.229.8080.