

INDEPENDENT THINKING

THE NEW STANDARD IN WEALTH MANAGEMENT

EVERCORE
Winter 2015

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Investment Outlook:
Still Betting on America

Tax-Efficient Wealth
Planning & Investing

Planning & Investing
to Reach “The Number”

Capturing Market Share
in Silicon Valley

Q&A with Muzinich & Co.
Corporate Credit

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THE NEW STANDARD IN WEALTH MANAGEMENT

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A Message from the CEO



There are, as we all know, only two certainties in life. The direction of the markets is not one of them. Investors may have become accustomed to high share prices, low interest rates and, more recently, cheap oil. This state of affairs could continue for years – or change tomorrow if any one of the simmering risks identified by John Apruzzese in this issue of *Independent Thinking* boils over into a full-blown crisis.

We have a view, of course, as expressed in these pages and in constant conversation with our clients. As the wealth management arm of Evercore, our view is informed and tested by the knowledge of our colleagues at Evercore. We are fortunate to have the insights of Roger Altman and Ralph Schlosstein, and other colleagues around the globe, including those at Evercore ISI, which was one of our many sources of research and analytics even before the firm's acquisition by Evercore last October.

As important as these insights may be, we will always use our own judgment to chart the best path for our clients, as we are the ones who know them best. Our view is always tempered by the uncertainties of the markets and the evolving goals and constraints of our clients. As circumstances change, so too do the associated opportunities and risks.

Tax – one of life's certainties and something that is on many investors' minds at this time of year – exemplifies this. As we've noted before, it is unlikely that any member of Congress knows his or her real tax bracket now. With that in mind, we take the first of

what we expect will be a number of deep dives into the subject here, by looking at tax-efficient asset allocation and investing in Iain Silverthorne's article "It Matters What You Keep."

Radical transparency, as Iain describes it, is a commitment of our firm and a real differentiator for us in the wealth management market. Not many firms are willing to show what market drawdowns can really do to a portfolio, let alone the real impact of taxes, as well as investment fees and increased risk. We do – designing and managing portfolios that strive to generate the highest after-fee, after-tax, risk-adjusted returns, across a range of asset classes. It's a very different approach, and it works for our clients.

No one can say for certain what this year will bring, let alone time specific events. I am confident that our approach to assessing risks and opportunities is sound, however. As we enter our seventh year, we take pride in our performance on behalf of our clients and are excited to continue building our firm, establishing the new standard in wealth management.

As always, please feel free to contact any of us at Evercore Wealth Management to discuss the topics in this issue of *Independent Thinking*, or with any other questions or comments you may have. We look forward to continuing the conversation.

A handwritten signature in black ink that reads "Jeff". The signature is written in a cursive, flowing style.

Jeff Maurer
Chief Executive Officer

Still Betting on America

By John Apruzzese

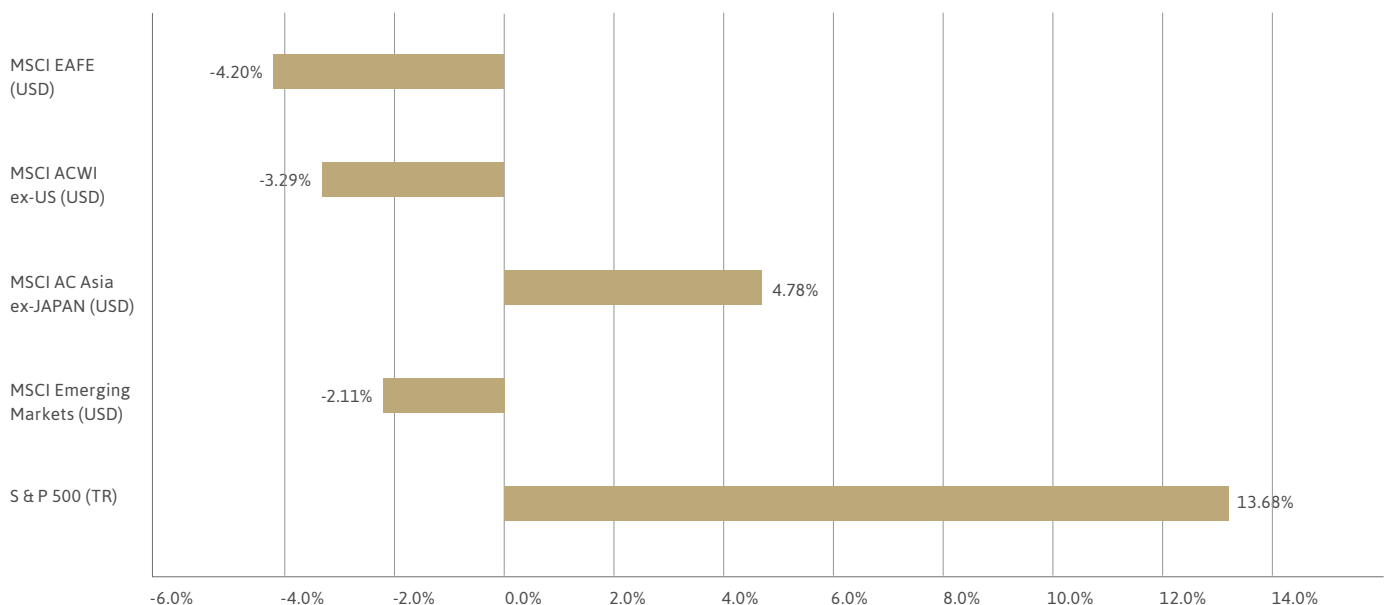
About this time last year, we observed in our annual investment outlook that many private investors were anxious about the markets following a 32% gain in the S&P 500 index in 2013. The index has since gained another 14%, to rise 50% in just two years. That can make now seem, as it always does, the hardest time to invest.

We are as confident in the U.S. economy as we were a year ago, however. Recent gains in the jobs data suggest that growth rates, already bolstered by low energy costs and continued low interest rates, may soon accelerate. The strong dollar is a plus, as consumption accounts for 72% of the economy and exports only 14%.

And, as our Evercore colleague Stuart Francis discusses on page 10, the United States continues to lead the world in technological innovation.

The prospects for the investment markets are more opaque, in part because U.S. investors are very focused on the future

2014 International Markets: Total Returns in U.S. Dollars





path of monetary policy. Stocks are likely to become more volatile when the Federal Reserve signals a willingness to begin hiking interest rates. It must be recognized that in all developed markets there is, and will continue to be, considerable uncertainty around long-term monetary policy following the unprecedented massive expansion of the major central bank balance sheets since 2008. There is no established playbook for how we return to normal interest rate levels.

We are as confident in the U.S. economy as we were a year ago.

More worrying, other major economies are faltering. At least 40% of the S&P 500 revenues come from outside the United States and the strong dollar impacts their earnings. Continued low interest rates and energy prices will allow the U.S. economy to go it alone for a while, even as Europe falls back into recession and China slows, but that will not necessarily translate into higher stock prices.

Longer term, the black clouds now over these regions and Japan may cast

more than a shadow on our investment landscape. The recent plunge in energy prices and the related volatility in the U.S. markets reflect the faltering global economy and, specifically, the slowdown in China.

China's economy is completely out of balance. Since the start of the decade, investment has grown to account for 48% of the economy, up from 36%. That compares with an average of 28% across the emerging markets as a whole. No country that has relied heavily on investment has ever made the transition to a consumer economy without a financial crisis – and no country has ever relied as heavily on investment as China does now.

Most observers give China the benefit of the doubt, as the country's managers have successfully overseen 30 years of almost uninterrupted economic growth. But it is difficult to see how the Chinese will spend their way out of this problem; the government has already invested in the equivalent of the entire U.S. interstate highway system in just ten years. How much more can they really do?

Japan has an astonishing debt load that exceeds 240% of its GDP, compared with about 100% for the United States

and 110% for developed economies on average. To date, the government has staved off a full-blown crisis with very low interest rates and its willingness and ability to finance its debt internally. But its aging – and shrinking – population

50%

The rise in the S&P 500 index over two years

can't continue to afford this burden much longer. If outside creditors demanded, say, 3% interest rates on Japanese government bonds, the interest expense would soon exceed total government revenues. The yen would collapse and the resulting tailspin could make the Lehman Brothers collapse look like a picnic.

For these reasons, and because our investors are generally dollar-denominated – earning and spending their money in dollars – we remain overweight on the U.S. markets relative to our industry. This approach, as well as the continued strong performance by our core equity team, has served our clients well to date and we

remain confident that the U.S. economy and, to a lesser degree, its markets will continue to outperform this year.

The firm's core equity strategy returned 16.55% net of fees last year, compared with 13.69% for the S&P 500 index. Since inception (2/3/2009) the strategy returned 19.88% net of fees on an annualized basis compared with 18.93% for the S&P 500. As Portfolio Managers Tim Evnin and Charlie Ryan describe in a video on our website, www.evercorewealthmanagement.com,

the concentrated portfolio of 40 or so carefully chosen stocks provides both diversification and exposure to growth opportunities.

There is no doubt that stocks have been trading at relatively high multiples recently, reflecting investor optimism. Just how high is demonstrated by the chart below. We continue to find opportunities in this market, however, driven by corporate earnings growth, and we expect the U.S. economy to continue its upward trajectory in 2015.

Now is always the hardest time to invest. We will maintain well-balanced portfolios on behalf of our clients, mindful of these risks at home and abroad, but also ready to benefit from expected further gains.

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

S & P 500 Blue Angels



Source: Standard & Poor's Corporations and Thomson Reuters I/B/E/S. yardeni.com
* Implied price index calculated using forward earnings times forward P/Es.

The Latest on Energy, From Evercore ISI

By Doug Terreson

Editor's note: Evercore acquired ISI in October 2014. The combined Evercore ISI team is a leading provider of sell-side research in the United States and one of the range of Evercore Wealth Management research providers. Here, Doug Terreson, Head of Energy Research and one of the top-rated analysts in the sector for 18 years, according to *Institutional Investor's* annual ranking, discusses the recent plunge in oil prices and its impact on energy stocks.

VOLATILE OIL PRICES

An important driver of the recent weakness is global oil demand, which has been revised lower in six consecutive months by the International Energy Agency, the U.S. Energy Information Administration, and the Organization of the Petroleum Exporting Countries, or OPEC. Global oil demand is a proxy for global economic growth, so the recent weakness raises concerns for the global economy as well. Supply-side factors were significant too, with production growth from OPEC surprisingly strong in recent months.

THE OUTLOOK FOR OIL

The recent weakness in oil prices will enable adjustments on the demand and supply sides of the equation, which in our view should lead to stronger markets. While the changes will likely prove methodical, the current fundamental imbalance is actually not onerous in relation to prior periods. Accordingly, as

markets rebalance, we envision sequential quarterly gains in oil prices. Brent crude oil prices should exceed \$80 a barrel by year-end 2015, in our opinion, which is counter to the market consensus.

KEY RISKS AND OPPORTUNITIES

The key risk to our oil market forecast is always economic growth and oil demand. Unfavorable revisions to the outlook for oil demand raise concerns, although lower oil prices should enhance trends in global oil demand in 2015. Regions in which global oil demand will likely recover include North America, Asia and Latin America. These regions delivered 80% of global oil demand growth in recent years, so recovery is important.

PROMISING ENERGY SECTORS

The significant correction in the exploration and production companies and in oil service subsectors, combined with our outlook for stronger oil prices in 2015, has improved their risk-reward prospects in recent months. We maintain our emphasis on the big oils for now, but the other energy subsectors appear increasingly attractive given the recent correction.

It Matters What You Keep

By Iain Silverthorne



Everyone knows the saying that it's not what you make that matters, it's what you keep. In this increasingly high-tax environment, private investors need their assets to generate the best possible risk-adjusted real returns.

Many investors underestimate the impact of taxes on private accounts, however. Asset allocation construction, modeling, and optimization analytics are generally based on pre-tax return expectations. The reason, apart from a general institutional client bias in the investment industry, is the distance in many large financial services firms between the portfolio manager and the actual client. Indeed, there can be as many as three or four organization levels involved in translating the client's goals and constraints into an investment portfolio.

Like the children's game of telephone, it's easy to see how the original message is lost. At the far end of the line, portfolio managers may quibble over pennies in transaction costs while realizing a short-term gain that makes sense for a non-taxable institutional investor, but incurs a top marginal federal and state income tax rate close to or exceeding 50% for a New York or California resident.

It seems to us that investors are best served by an approach of radical

transparency; one that is rooted in direct relationships and integrates investment management and financial planning. Clients who work directly with a wealth advisor and a portfolio manager, both of whom are aware of their tax situation, can expect better designed and managed portfolios than most private investors.

At Evercore Wealth Management, we consider after-tax return assumptions in implementing our investment strategies on behalf of clients through our Efficient Architecture® platform and in our approach to wealth planning. As the direct manager of our clients' core equity and municipal bond portfolios, we are able to control the timing, quantity and rate (long-term vs. short-term) of transactions as appropriate, given the tax liability. Asset location is also critical in how we invest tax efficiently on behalf of our clients; we locate our credit and diversified market strategies in tax-deferred accounts whenever possible.

We are also mindful of tax when allocating to any of our carefully selected and monitored external advisors, focusing on managers who record both low turnover and a low tax drag on their returns, and avoiding strategies in which the diversification benefits only make sense in pretax terms. (A recent Aperio survey suggests that over three quarters of the total capital appreciation from actively managed funds is distributed as taxable income to investors.) We often use index or even passive tax loss harvesting strategies, through which losses can be applied to tax-inefficient asset classes, thereby improving the after-tax return of the entire portfolio.

From a planning and charitable giving standpoint, we encourage clients to use highly appreciated stock in lieu of cash for donations and to incorporate this gifting throughout the year as part of a portfolio

rebalancing exercise. Rather than sell appreciated assets to rebalance, we encourage clients to gift the appreciated assets and use cash for rebalancing.

*Investors are best served
by radical transparency.*

Another way that we think about taxes in the context of integrated investment and wealth planning is in the use of grantor trusts. Many families may have established grantor trusts for their children and grandchildren in which the grantor is responsible for paying the income taxes on behalf of the trust (see Julie Krieger's article on page 14). These trusts often have provisions that allow the grantor to substitute assets of an equivalent value, which can afford planners the flexibility to revise asset allocations across different family entities. A grantor could substitute, say, \$1 million of cash for \$1 million of a highly appreciated stock that has a cost basis of just \$200,000.

By gaining a comprehensive understanding of our clients' financial affairs, we can typically identify opportunities to minimize realized gains while making prudent long-term asset allocation decisions. For example, grantors who wish to increase their equity allocation at the same time that assets are being rebalanced within their trusts could structure the transactions to employ an asset substitution that won't incur a capital gains tax. This approach can transfer the appreciated equity securities back to the grantor and place cash or other higher-basis assets in the family trusts.

Additionally, the grantors may then immediately diversify by giving the low-basis stock to a private foundation

or charitable remainder trust. If they are older, they might stay with the low-cost position until death, when the holding will receive a step-up in basis.

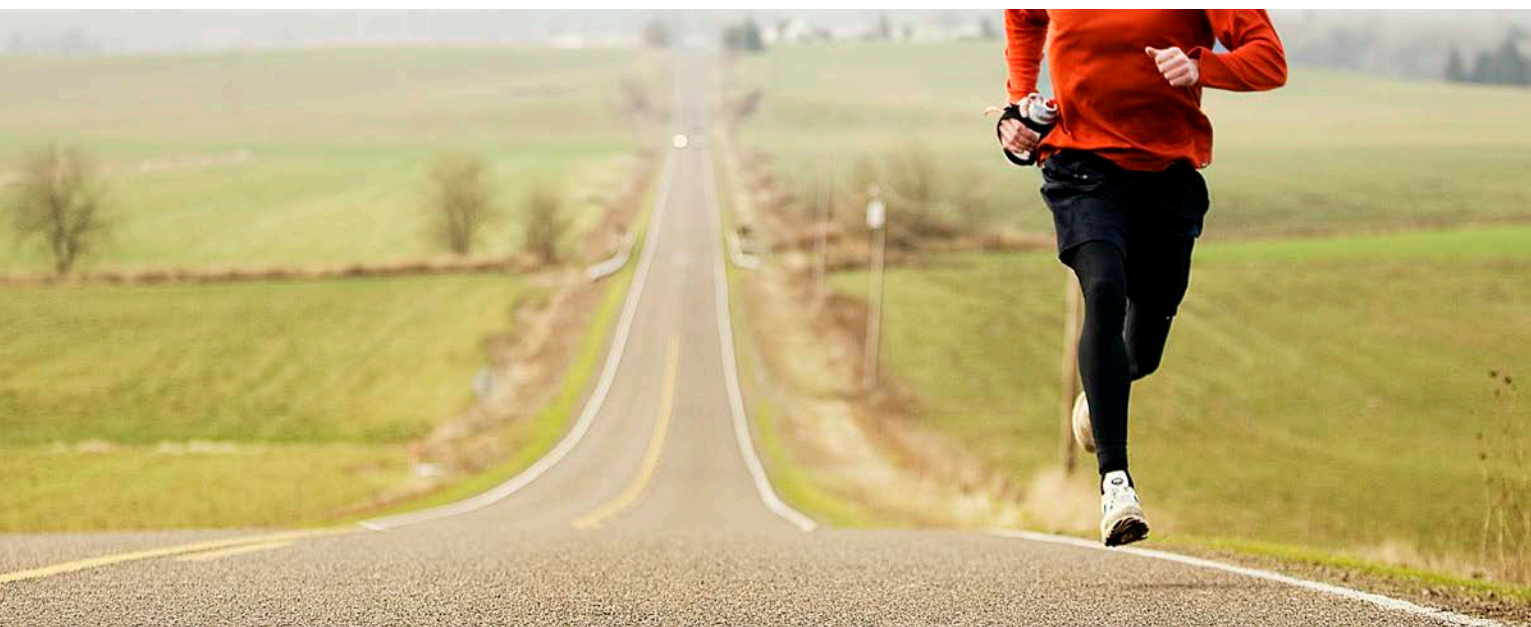
Managing tax-efficient personal portfolios isn't easy, in large part because this is not the lens through which the financial services industry tends to view investment or planning. The complexity of our federal and state tax laws also discourages many professional investors from this approach, because it is hard work to deal with each client individually and make recommendations based on each specific tax situation. Will Rogers observed almost 100 years ago that, while the only certainties in life are death and taxes, at least death doesn't change every time Congress meets.

Still, it's our job as fiduciaries to keep pace with every change to the tax code and to understand its implications for each of our clients and their families. Tax efficiency is more than a factor in great wealth management; it's how we approach the management of each client's assets.

Iain Silverthorne is a Partner at the Evercore Wealth Management office in San Francisco. He can be contacted at silverthorne@evercore.com.

“The Number”

By Jeff Maurer



About 10 years ago, the former *Esquire* editor Lee Eisenberg wrote a book titled *The Number* that his publishers were convinced would fly off the shelves. It did okay, but nothing like the marketing department had hoped. Apart from young traders on Wall Street, who have a more colorful term for their number, it appears that Americans don't want to think too much about the real cost of financial independence.

That's in part because the number itself keeps changing.

I was first exposed to real wealth in 1970 when I was asked to help a senior trust officer settle an estate built in the previous century. I had read my Fitzgerald, of course, but it was still difficult to wrap my head around the scale, especially when I calculated that the income from the municipal bond portfolio alone produced more income on a daily basis than I was likely to make in the entire year, and the beachfront mansion alone would take several lifetimes. At the time, I was focused on

moving out of my parents' home and paying off my student loans.

My number took shape then and grew steadily since, although never to anything like the heights of that particular fortune. Most young people – including those traders on Wall Street – soon discover that “my number” becomes “our number” as they are joined by spouses, children and, ultimately, life's great dividend, grandchildren. Aging parents and philanthropic interests also play a part, and the number that seemed so great

Thinking about The Number

By Ashley Greeff

A lot has been written about Millennials but, as far as thinking about retirement, the jury is still out on the generation's behavior. Are Millennials living for today instead of thinking about tomorrow?

Millennials, also known as Generation Y, are those born between the early 1980s to the early 2000s. Research to date generally indicates that Millennials delay settling down and buying a home, opting instead for one-of-a-kind experiences like traveling and investing in education. Homeownership, the traditional nest-egg investment, is now often regarded as expensive and risky, especially if the buyer could suffer a job loss or move to Silicon Valley to join a tech start-up. Older Millennials, currently in their mid-thirties and starting families, are beginning to test these generalities. Still, findings report that Millennials who do settle down and buy homes tend to buy smaller and less expensive properties than older generations.

Many Millennials report that they are living paycheck to paycheck. After paying rent, buying the latest necessary tech gadget, paying off monthly student loans and other fixed living costs, they have little discretionary income left to save for retirement. It's important to note that research suggests that Millennials are actually paid less than their predecessors, in the lingering aftermath of the Great Recession.

Among Millennials with discretionary income to save, many seem to be sitting on the investing sidelines with cash, as they are anxious about the markets. That may be understandable, given our formative investing experiences, but are we now hurting our chances for a comfortable retirement? After all, Millennials probably cannot rely on Social Security or pension income.

So how can Millennials tackle what Evercore Wealth Management CEO Jeff Maurer describes on page 8 as "The Number" when we have so many other priorities? We asked our counterparts at Evercore, our clients, and clients' children and grandchildren, and determined that, first, it's okay to invest in yourself. Signing up for that continuing education class or hiking to Machu Picchu are invaluable experiences. There are very good reasons to save what we can, however. By factoring in the effects of long-term compounding, especially in a tax-deferred vehicle, investments can grow exponentially.

Consider the relative positions of a 25-year-old who starts to contribute \$5,000 per year to a 401k and a 35-year old who has just now done the same, both with the intention of working until age 65. By that time, based on an 8% annual return, which is a discount to historic equity returns, the early saver's 401k has grown to \$1.3 million while the later saver's is only \$566,000 (and he or she has missed out on some important tax breaks in the interim). There is real value in starting early, as well as in proper asset allocation, diversification, and tax planning.

So, fellow Millennials, here is my advice to you: Put away what you can. We might not have Social Security on our side, but we do have time. Let's use it to our advantage.

Ashley Greeff is a Vice President and Wealth Advisor at Evercore Wealth Management in New York. She can be contacted at greeff@evercore.com.

at age 25 may seem laughably small at 55, when most people still have not given much thought to long-term healthcare.

Even on its own, the number keeps growing – the \$1.5 million to \$2 million that Eisenberg calculated was enough to live on comfortably in New York City seems rather outdated now. (I should note that this was the smallest of his four brackets; he also observes that one New Yorker's idea of a secure retirement fund is another's long weekend.)

Older Baby Boomers like me are no longer living our lives in anticipation of that ever-growing number but are instead shaping our lives to fit the one we've actually managed to achieve. Many people are aware that they have to scale back; others realize that they could be doing more with their wealth but are uncomfortable with what they perceive as the associated risks.

For my partners and me, this is where our work gets interesting: We engage directly with our clients to help them articulate their goals and understand their number in that context – that's really why we founded our firm. It is our job to help protect and foster those goals, by converting each client's number into an appropriate asset allocation with realistic investment return assumptions that reflect income taxes and inflation, focusing on the potential for drawdown.

In the 45 years since I toured that Florida estate and thought for the first time about my client's and my own numbers, I have seen many great and modest fortunes built, preserved and successfully transferred to succeeding generations – mostly through hard work that became a reward in itself (something else those young traders will come to learn). Protecting the resulting number and the goals it represents is our privilege.

Jeff Maurer is the CEO of Evercore Wealth Management. He can be contacted at maurer@evercore.com.

Everything to Play for in Silicon Valley

By Stuart Francis



Editor's note: J. Stuart Francis joined Evercore in July 2014 as the head of the firm's growing Silicon Valley technology practice. He was previously the chairman of Barclays' global technology group and has 35 years of experience in advising leading companies, including Amgen, Aruba Networks, Avago Technologies, Abbott Labs, Cisco Systems, Facebook, FireEye, Google, NetApp, Netsuite, Qualcomm, Sunpower, and Workday. Here are extracts from a recent conversation with *Independent Thinking*.

CHANGES IN TECHNOLOGY

The Technology and Internet Sector is not quite a winner-takes-all market, but it is certainly a winner-takes-more-than-ever-before market. In any sector there are really only a few big winners now, which are the companies that have excelled at knowing what their consumers want and making it available rapidly around the world. There has never been a time when there has been a greater opportunity to capture market share.

The reason for this is because we are in a very unique period, in which we are seeing the rapid individualization and consumerization of information technology, or IT. The power of IT is essentially being transferred primarily into the hands of the end user. This dynamic transfer is shaping social media, mobility, big data and analytics, the Cloud and – across all these areas – security.

The social media titans, like Google, Facebook, Twitter, and LinkedIn, as well as a number of smaller companies, are producing spectacular numbers. Apple, Samsung and Qualcomm have done a great job in the mobility space; Splunk and Tableau are the two leaders in predictive analytics and big data; and in the enterprise software market, Workday

is taking business from its competitors on the Cloud.

Security is a fundamental issue that still hasn't received enough attention, even though companies like Palo Alto Networks and FireEye have interesting and focused offerings. The big data sets that have been created through this individualization of IT need to be properly protected, as do the corporations themselves. The recent high-profile hackings experienced by Sony, Target, Home Depot and others illustrates this issue clearly.

If you think about it, where do you have better IT? At work or at home? For almost all of us now, our own technology is better than that provided by our workplaces – and we expect our corporate support services to accommodate us. The head of IT used to be something of a dictator. Now, he or she is really more like an elected leader of a democracy, trying to manage a secure system while providing flexible access to workers using a wide range of devices. This is a huge challenge that is just not going away.

THE OUTLOOK FOR SILICON VALLEY

Silicon Valley is uniquely positioned to continue to build leaders in each of these

sectors. Indeed, I think we can make the case that there has never been a period in the history of the world when one small geography has had as much global influence as Silicon Valley has right now.

There are other important technology centers and markets, of course, but we have yet to see the level of innovation in China or anywhere else that we are seeing in Silicon Valley. We are also seeing improvements in the companies' ability to protect that innovation in the judicial systems around the world through intellectual property laws.

THE CHALLENGE FOR LARGE INCUMBENTS

Most of the major companies are either late or they have missed many of the major trends that we've been talking about. When they've tried to grow new businesses organically, they've struggled. And they've been hesitant to make transformative acquisitions.

It's not easy. The quarterly pressure to produce earnings growth is significant. When a company is transitioning from an old model within a company to a new model, it generally has a high cost base and declining or flat revenues for the existing products. It's a real challenge to make the transition to the high-growth sectors when you've got to protect the flank.

Acquisitions can be tough, too. It's difficult for companies to justify paying maybe seven times revenue for a company when they themselves are trading at, say, 14 times earnings. They get hung up on dilution. But paying modest value for modest growth and thinking that you can get there through integration and cost cutting doesn't work in this winner-takes-more-than-ever-before environment. If you believe in the trend, you need the backbone to get the deal done.

DIRECT RELATIONSHIPS WITH SENIOR EVERCORE ADVISORS

Leaders in the technology sector receive a service from Evercore that is very hard to find elsewhere, with focused, senior-level attention from bankers and great research from Evercore ISI. There is a real demand for advice that is based on experience. Our clients, including both young CEOs and major large technology companies, want to know how to build sustainable, long-term value and differentiate their company in an equity-driven sector that operates to a pretty tight timeline. They want advisors and lead investment bankers who have deep knowledge, a lot of experience, and very senior-level contacts either in the buy side or, from the strategic M&A standpoint, with the major corporate buyers.

Evercore has assembled a significant Silicon Valley team of seasoned trusted advisors with deep market understanding. The local Silicon Valley team can now provide deep strategic advice and execution to all of its technology and Internet clients.

For information on Evercore in Silicon Valley, contact **Iain Silverthorne** at silverthorne@evercore.com. He is based in the San Francisco office of Evercore Wealth Management.



Q&A



Michael McEachern

An Interview with Michael McEachern at the Muzinich Credit Opportunities Fund

Evercore Wealth Management supplements its core investment capabilities with carefully selected outside funds across the range of the firm's asset classes. Here we interview Michael McEachern, the manager of the Muzinich Credit Opportunities Fund, which seeks to deliver high-yield income and capital appreciation by investing in corporate bonds, both below-investment grade and investment grade, and in bank loans and floating rate loans issued by U.S. and foreign corporations.

Q: The Credit Opportunities Fund was launched in 2013, which makes it a relatively new strategy at Muzinich. What was the impetus? ?

A: We think this strategy combines the best of the Muzinich credit offerings. We have a proven track record managing portfolios across the credit spectrum, credit asset classes, and the various geographic regions. For the Credit Opportunities Fund, we rely on our fundamental relative value experience to determine allocations across the global credit markets. Within the allocated markets, we have the knowledge base and experience to evaluate the full capital structure of corporate credit and to build a bottom-up portfolio of securities that targets what we believe is the best relative value.

Q: The strategy has a lot of flexibility, but isn't entirely unconstrained. Please tell us about some of the constraints on the portfolio and why you thought those constraints were important??

A: The fund is constructed within guidelines that include restrictions on issuer and industry exposure, maximum duration and minimum credit rating. These include a 30% minimum exposure to U.S.-dollar denominated assets; a 15% maximum to any country, other than the United States; a 20% maximum to any one industry; and a 5% maximum to any one issuer. We aim to maintain a minimum of 75 issuers and a maximum duration of five years.

We are very cognizant of concentration risk in portfolio construction and we believe that portfolio diversification is an important aspect of risk control. A maximum duration of five years helps keep our volatility in line with that of an intermediate-term index. These guidelines still afford the strategy of significant discretion to allocate across a broad range of global credit sectors, to target maximizing total return or avoiding volatility.

Q: The fund can invest internationally, in domestic, European and Emerging Markets, and also across sectors, including high-yield and investment-grade corporate bonds, leveraged loans and Treasuries. On what basis do you determine the fund's positioning among these different geographic regions and sectors?

A: The portfolio managers representing the various asset classes and geographies help formulate the tactical decisions at the Muzinich's Investment Policy & Risk Group, or IPRG. Portfolio managers provide scorecard rankings on the technicals, fundamentals and valuations for their respective asset classes and discuss their respective markets. The group forms an opinion that is followed closely in making the majority of asset allocation decisions for the fund.

IPRG tracks historical rankings to review during meetings to see if there is a significant shift in sentiment by the group. In addition, we use proprietary data to review each asset class by region, credit quality, and duration. We also look at cross-region proprietary data for regional relative value comparisons.

Ultimately, the lead portfolio manager finalizes asset allocation decisions for the fund in the framework of an overall plan that is formed during the monthly IPRG meetings.

Q: The fund can invest in companies based globally, but does it take on foreign currency exposure? Why or why not?

A: The fund has the ability to invest in non-dollar and emerging markets debt, but we do so in the hard currencies of the U.S. dollar, the Euro, Sterling, and the Swiss franc. Currency management is generally not used as an active source of investment income, as we feel this can add volatility to the portfolio that is not within the risk/return profile of this strategy.

Q: How do you manage risk within the portfolio?

A: The fund offers a “go-anywhere” flexible credit strategy that can be positioned appropriately in up and down markets. The strategy offers the portfolio manager the flexibility to shorten duration in a rising interest rate environment and adjust portfolio credit risk when volatility picks up. We believe that the strategy’s flexibility to move in and out of global credit sectors, as well as up and down the credit quality and duration spectrum, combined with our bottom-up credit selection process, gives us the ability to add value above single-directional credit strategies over a market cycle.

For example, if we are in a positive credit environment but believe interest rates are likely to move higher, we could position the portfolio with a shorter duration and take more credit risk, which could have a positive impact on portfolio returns if our thesis is correct. Conversely, if credit quality is deteriorating and interest rates have a higher propensity to move lower, we could position the portfolio with higher credit quality bonds that have longer durations. The wide dispersion of returns across the global credit markets creates the potential for value to be generated through tactical allocations across regional and sector credit markets.

The fund seeks to identify the best investment opportunities within the global corporate credit markets, and to take advantage of these return variations as they move in and out of favor. These top-down decisions, along with duration and credit volatility management, should have the greater influence on returns when there is increased volatility in the market. In relatively lower volatility markets, where asset classes have a higher degree of correlation, bottom-up security selection should influence returns more.

Q: What is your investment outlook for global credit, both short-term and long-term? How about for U.S. interest rates?

A: We believe we have entered the next phase of the global credit cycle, moving from an environment of mostly positive factors to an environment that now has both positive and negative factors. It seems to us that there will be a much wider dispersion of returns across global credit, driven by differences in regional fundamentals as well as industry-specific fundamentals. For example, U.S. credit fundamentals in general remain strong, while Euro-zone fundamentals are more varied. Energy prices have fallen precipitously, making energy one of the worst performing industries in global credit. Lower-rated bonds have started to underperform high-quality bonds.

Longer term, we believe interest rates will remain relatively low and that the credit markets, while not as robust as they used to be, still represents a valuable and transparent way to potentially generate additional yield above U.S. Treasury yields.

We also believe that secondary market liquidity for corporate bonds will remain low by historical measures. This has become more pronounced in the last several months, especially in lower-rated bonds. We have positioned the portfolio for less secondary corporate bond liquidity by increasing the overall portfolio credit quality and reducing exposure to low-rated bonds.

Q: Muzinich is a large credit manager, but isn’t well known in the United States, although it is headquartered in New York. Your thoughts?

A: That’s right, we are better known in Europe, where our first corporate credit investors 24 years ago were insurance companies. But we are well known to both the market-making community and to the hundreds of issuers we invest in. We can leverage the size of our firm and access senior management at the companies we hold. We have a seat at the table when it comes to new issuance.

Here in the United States, our investor base has been growing quite strongly over the last several years. These clients see the value in our independence, our exclusive focus on global corporate credit, and our willingness to partner with our clients to customize strategies that meet their risk/reward expectations.

For further information on the Evercore Wealth Management Efficient Architecture® investment platform and the Muzinich Credit Opportunities Fund, please contact **Brian Pollak** at brian.pollak@evercore.com.

Loosening the Reins

By Julie Krieger

Most high net worth families know that they are able to efficiently transfer wealth by making annual exclusion and lifetime gifts to their children that reduce the taxable value of their own estate. Many don't realize, however, that they can also retain some control of those assets.

Parents who fear that their children would be burdened by a gift – that it might limit their ambitions, damage their relationships, or expose them to loss from future divorces or creditors – can manage those concerns by discussing them with their wealth advisor and other professionals. The right team can identify and establish the appropriate legal structures, and help engage and educate the next generation, while supporting the parents' authority.

The recent experience of a Midwestern couple in their mid 50s is fairly typical. They had sold their business and wanted to manage their financial affairs as tax efficiently as possible, but they were not comfortable making large gifts outright to their college-age children.

By creating a spousal and family exemption trust, or SAFE trust, for the primary benefit of their children, the couple was able to transfer the wife's lifetime federal gift tax exemption (which, as the chart on page 16 indicates, is now \$5.43 million), using liquid assets, and reduce the value of their estate

accordingly. They were able to retain the ability to access the assets, if necessary, through an independent trustee as the husband was a permitted beneficiary, while also preserving his separate \$5.43 million lifetime federal gift tax exemption 2015.

While the premature death of the husband would eliminate any indirect benefit from these funds to the wife; if the couple lives to or near their life expectancies, this strategy will allow them to pass on a larger estate to their children with no estate tax due on the future appreciation of these assets. Also, the wife would likely inherit the assets the husband retained in his name.

\$5.43^{MILLION}

Lifetime federal gift tax exemption in 2015

Family business asset transfers can be especially fraught with complexity, as the owner may need to ensure the continued success of the business while developing leadership and succession plans that may coincide with ownership. Client and vendor agreements, as well as bank loans to the business, may also require the owner to maintain a level of voting

control. Again, the right legal structures can satisfy these conditions and allow the business owner to reduce the taxable estate while managing both the business and long-term interests of the family.

A number of these issues came into play in a recent series of discussions with the owners of a successful retail business in Chicago, and their chief financial officer, estate-planning attorney and accountant. By identifying the business entity with the highest potential for future appreciation and then creating a non-voting class of stock, the parents were able to gift a stake in the business while retaining control and the ability to plan for succession in the future.

In this case, a generation-skipping tax, or GST, trust allowed them to leverage the use of both their gift and GST tax exemptions. The trust also provided layers of protection against divorce and the mistakes of future grandchildren by assigning fiduciary control to an experienced trustee. Finally, by structuring the trust as a defective grantor trust, the grantors were able to pay the trust's income taxes, affording the trust the added benefit of tax-free growth.

The most common fear – one that is often difficult to communicate within the family – is the parents' concern, whether rational or not, that they retain sufficient assets for themselves for their retirement lifestyle

needs. Retaining the ability to access specific assets while reducing their taxable estate can help place these fears into proper perspective.

A widower with significant liquid wealth and commercial real estate found himself torn between his need to support himself and his desire to maximize the use of his lifetime federal gift tax exemption for his adult children ahead of any rise in the current depressed real estate values. The best solution for him was to retain his liquid assets to cover his own expenses and to gift an illiquid asset, in this case undeveloped Florida real estate, while retaining some management control of the land through a limited liability limited partnership structure.

His advisors were able to secure a discounted valuation of the land, reflecting current market conditions as well as its undeveloped state and the complications inherent in the shared ownership. They agreed that the land had significant appreciation potential, making it the ideal asset to remove from his estate to the greater benefit of succeeding generations.

While these cases are broadly representative, each family's situation is as unique as the people and relationships involved. Determining the best approach starts with a conversation. What are the goals of each generation? What asset is the optimal one to gift? What structure should be used to retain control? What

are the potential challenges ahead and the best ways to address them?

Evercore Wealth Management advisors have extensive experience assisting families in developing long-term gifting plans, engaging family members, and serving as a trusted fiduciary. We work closely with our clients' other advisors and accommodate concentrated holdings to plan and invest in the best interests of our clients.

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2015 Estate & Income Tax Planning Landscape

by Jen Tse

Although the 2015 Federal income tax and wealth planning environment remains relatively unchanged from 2014, it is still important to understand and take advantage of available planning opportunities.

The annual gift and generation-skipping tax exemption increased to \$5.43 million per person for 2015, up \$90,000 from \$5.34 million in 2014. If you have utilized the earlier exemption, you can give the additional \$90,000 in 2015. The federal gift tax rate remains at 40%. (Connecticut is the only state that also imposes a gift tax for gifts over \$2 million.) The annual exclusion remains at \$14,000 per person. Married couples can split gifts and give \$28,000 to any individual without utilizing any of their gift tax exemption.

The federal estate tax exemption also increased to \$5.43 million per person for 2015. The federal estate tax rate is at 40%. Portability of the federal estate tax exemption, where the surviving spouse can use the deceased spouse's unused exemption, remains available. Note that the state estate tax exemption and tax rates may differ from the federal amounts,

and the state estate tax exemption is generally not portable. Hawaii is the only state that allows for portability, although Maryland will allow for portability in 2019.

For those in the top federal income tax bracket, ordinary income tax rates remain high at 39.6% and the long-term capital gains tax rate at 20%. The additional 3.8% Medicare surtax on net investment income above certain thresholds for individuals and non-grantor trusts remains intact.

Please contact your Evercore Wealth Management Wealth Advisor with any questions you may have or to discuss your specific circumstances.

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Federal Estate, Gift, & Generation Skipping Taxes

	2015	2014
Annual Exclusion		
Single Person	\$14,000	\$14,000
Married Couple / Gift Splitting	\$28,000	\$28,000
Gifts to Non-U.S. Citizen Spouse	\$147,000	\$145,000
Lifetime Gift Tax Exemption	\$5,430,000 (indexed)	\$5,340,000 (indexed)
Maximum Gift Tax Rate	40%	40%
Estate Tax Exemption	\$5,430,000 (indexed with portability)	\$5,340,000 (indexed with portability)
Maximum Estate Tax Rate	40%	40%
Generation Skipping Tax (GST) Exemption	\$5,430,000 (indexed)	\$5,340,000 (indexed)
Maximum GST Tax Rate	40%	40%

Notes: This chart does not include any possible state estate tax rates, rules or exemptions.

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