Fiduciary Trust International

2021 OUTLOOK

Gaining Ground: Moving Forward in the Year Ahead

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Letter from the CEO

Our Outlook for the Economy and Markets

Wealth Planning Strategies for 2021

JOHN M. DOWD
CHIEF EXECUTIVE OFFICER

They say that necessity is the mother of invention. And that was certainly true in 2020. Our lives took an unexpected turn, forcing many of us to get comfortable with online technologies to visit our friends and families, order groceries, collaborate with our colleagues, and stay on top of our financial lives.

And, like many firms, we transitioned to a remote work environment and found new ways to keep our connections with clients strong, despite the distance. We also finalized our acquisitions of Athena Capital and Pennsylvania Trust, hired new talent, and made it easier for you to manage your financial life online, through Fiduciary Trust's mobile app and online client service.

Despite all the obstacles presented by COVID-19, we moved forward in 2020—managing risk, capturing new investment opportunities, and working remotely with clients to build robust financial plans.

Life will undoubtedly take more twists and turns over the course of the next 12 months. But the key to financial success in 2021 will be to keep moving in the right direction. Your wealth advisors will help you stay on the right path, focus on your goals, fine-tune your financial plan and prepare for the unexpected.

You'll find lots of actionable ideas in this Outlook, including advice on how to choose the best place to live from a financial point of view, build an estate plan that can weather the storm of changing tax laws, tackle the challenges faced by the "sandwich generation," and navigate major life transitions.

Our investment team leaders offer their outlook for the economy and markets, analyze the strong performance of "sustainable investing" strategies in 2020, and explain how private equity investments can play an important role in your portfolio.

We are determined to help you gain new ground and move closer to your goals in 2021. As always, our primary mission will be to preserve and grow your wealth for generations to come.

We wish you and your families the best of health and happiness in the new year.

John M. Dowd

John M. Dowd
Chief Executive Officer

Looking down the road

Cautiously optimistic

Early this year, we grappled with the onset of a once-in-a-lifetime pandemic that quickly spread across the globe and disrupted everyday life in unimaginable ways. Facing the unknown magnitude and duration of the virus, the implications for economic activity, government policy and markets were sudden and extreme.

Amidst a tumultuous investment environment, financial markets ultimately proved resilient, benefiting in no small part from unprecedented global monetary and fiscal stimulus and the rapid snap back in economic activity. All three major stock indices—the S&P 500, Russell 2000 and Nasdaq—established new all-time highs, led by the technology-heavy Nasdaq which benefitted from a less mobile, stay-at-home society.

Standing at a crossroad today

While 2020 was a record-breaking year for economic and market data (both negative and positive), it is important to think through the current phase of the crisis and consider the path ahead. Today, we stand at a crossroad, with many of the unknowns behind us, but fully aware that challenges remain on the path ahead.

The pace of change and the visibility surrounding what is next is far from certain. This represents a clear break from the years heading into 2020 when market participants enjoyed a relatively high degree of stability in the economic and financial landscape. We often referred to this backdrop as "Goldilocks." The economy was plodding along at a slow but steady pace resulting in little deviation. This led to increased

visibility and certainty surrounding economic growth, corporate earnings, inflation and government policy. Although the pandemic has turned that baseline upside down and the Goldilocks economy has all but disappeared, the backdrop for markets remains, perhaps surprisingly, in a "sweet spot."

In our view, financial markets are looking through to the end of the pandemic—the proverbial light at the end of the tunnel. And while markets have found some comfort in not one, but multiple, potential vaccines, the realities of creating these medicines in record time and distributing them to millions of people remains, at the very least, a logistical challenge. Nonetheless, we believe that investor sentiment has been positively influenced by several developments that have, on net, reduced uncertainty.

1. **Resolution of the pandemic.** Market consensus seems to expect the virus to be contained at some point next year. This is crucial for economies to fully reopen, companies to rehire employees and consumers to reengage in normal activities. While we are as eager as anyone to see an end to the pandemic that has wrought suffering and pain on a global scale, we feel there are numerous unknowns in how the vaccines may play out.

2. **Divided government.** The election results have removed uncertainty about major policy initiatives that could have developed with a Democratic sweep. We are unlikely to see wholesale changes to corporate tax policy and regulations. Further fiscal stimulus could be challenged, but markets have largely taken the November outcome in a positive light.

3. **Economic recovery.** Earlier this year, we alluded to the idea of turning off the economy like a light switch. With the help of monetary and fiscal policy, that switch was seemingly turned back on. Despite the sharp snapback, a loss in economic momentum and elevated levels of unemployment remain concerns.

With fewer unknowns in the market, these developments have shaped the path for recovery next year and perhaps beyond.

Step 1: Closing the gap

With markets having set new highs as they justifiably look towards a return to normalcy in 2021, that normalcy, is quite a distance away for an economy dealing with resurgent coronavirus cases, lockdowns and vaccine timeline and distribution challenges.

The spike in cases in the US and Europe seems to have been putting downward pressure on mobility data, suggesting a potential decrease in economic activity may lie ahead. As the northern hemisphere enters winter, we expect case growth to accelerate given the southern hemisphere's experience during its recent winter months. Rolling lockdowns until the pandemic has been largely defeated seem likely. This scenario, however, is different than this past spring when lockdowns simultaneously gripped entire nations.

The latest estimates suggest a national deployment of the vaccine could begin as early as December, with healthcare workers among the first recipients. To achieve widespread global herd immunity, approximately 10 to 15 billion doses would need to be produced, distributed and administered. It is estimated that developed economies could be fully vaccinated by the end of 2021, while emerging markets would be covered sometime in 2022. Notably, the US and many other advanced countries have already secured enough doses to vaccinate their populations.

Based on these factors, the parts of the economy hardest hit by social distancing measures (i.e., hospitality, travel and entertainment) may continue to struggle. However, we expect the broader economy to maintain its recent resiliency and swerve around the potholes ahead.

Step 2: Shifting gears

The road to normalization will ultimately be measured in years, not months, and will take place on a global scale. We believe that there are several key themes that have emerged that will be in place long after the pandemic is in the rear-view mirror.

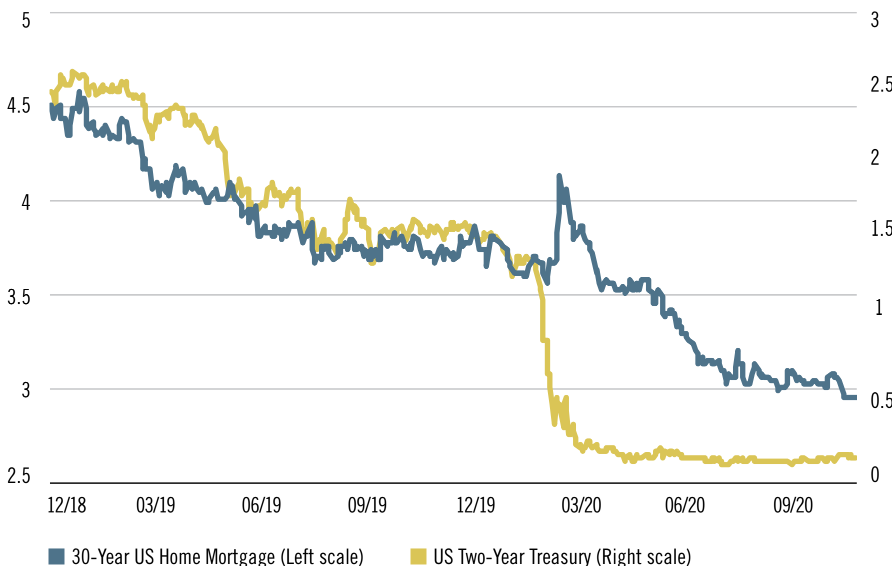
From a policy perspective, we expect the Federal Reserve and other central banks around the world to maintain the current low interest rate environment for years to come. As Chair Powell said earlier this year, the Fed is "not even thinking about thinking about raising rates."[1] Not to be forgotten, more fiscal stimulus looks to be on the horizon. With a divided government, the prospects for a trimmed-down package have increased, although any relief bill would be welcomed by markets. Next year, there could be a renewed push toward true infrastructure spending, an issue that both political parties appear to support.

On the consumer front, US housing data has been a bright spot. We think this is likely to continue amid historically low mortgage rates, rising personal savings[2] and a gradually decreasing unemployment rate. As of November 20th, the average 30-year mortgage dropped to 2.95%,[3] a historical low. Increased housing activity may potentially lead to heightened consumer spending on household goods, especially as confidence builds around employment opportunities.

Additionally, economic activity stands to benefit from pent-up demand for services and other experiences which were effectively shuttered during the pandemic. Similarly, we believe that businesses are eager to invest in capital expenditures and rehire workers as companies gain more confidence in the prospects of the recovery.

FED POLICY DRIVES MORTGAGE RATES LOWER

US 30-year home mortgage rate vs. US two-year treasury (%)



Source: Bloomberg, as of 11/23/2020.

Cautiously optimistic in the "sweet spot"

There are few times in recent memory when the term "cautiously optimistic" could seem more appropriate than today. Our optimism reflects a reaccelerating growth environment following the rollout of a vaccine–the ultimate solution to the health crisis. As a result, we expect global growth to be driven by the full, unrestricted reopening of economies which may unleash pent-up demand. Further, this has the potential to be synchronized across countries and coinciding with a period of unprecedented easy global financial conditions, hence, the sweet spot.

This backdrop remains supportive of risk assets. We expect the return profile for global equities to be positive, to broaden out from "stay-at-home" winners and to outpace global bonds.

In the near term, the realities of the virus are still apparent while the global pandemic continues to take a toll on human health. We believe that markets will be volatile, and some patience is required before we reposition for a truly post-pandemic world.

RONALD J. SANCHEZ, CFA®
CHIEF INVESTMENT OFFICER

1. As of 6/10/2020.
2. Source: Bureau of Economic Analysis, as of 9/30/2020. US personal savings rose 108.4% year over year for the quarter ending 9/30/2020.
3. Source: Bloomberg.

Opportunities in a post-COVID world

The increasing appeal of international markets

With 2020 nearing an end and optimism growing around a vaccine, financial markets may focus on the transition to a post-COVID world. If successful, the continuing economic recovery could help spur "animal spirits" and inspire consumer confidence.

The incoming Biden administration's policies, especially those related to trade, may also contribute to the favorable global backdrop for markets and international economies in 2021.

Equities: Time to look abroad?

With stronger economic growth poised to drive a reflationary environment, alongside positive vaccine news, we could finally see a more sustainable cyclical rotation within equities. Such a trend could benefit small- to medium-size companies. However, given the recent uptick in COVID-19 cases, US large-cap equities, with their higher-quality and more defensive characteristics, could act as a safe haven.

International markets have some appeal, but with many countries experiencing surges in virus infections and employing shut-downs, we remain cautious in the short term. While we expect the latest overseas lockdown measures to eventually be removed, these policies could potentially impact these countries' equity markets. Emerging markets are likely to benefit from a better growth environment due to their success in handling the virus as well as potentially better trade relations.

Fixed Income: Could rates move higher?

The Fed has indicated it will maintain the current level of short-term interest rates. While we believe that long-end rates could move higher, the likelihood of an aggressive sell-off in the US bond market seems low as the move would likely be met by strong demand from overseas investors.

Alternatives: More than just a hedge?

In the past, we have used liquid alternatives as a risk mitigation tool in a portfolio. In a low interest rate world, fixed income may not necessarily provide the same protection it once did, although it still serves a role in a balanced portfolio. While we have viewed the use of alternatives as a hedge against uncertainty, they may also provide another potential source for returns. Private equity may pose an interesting possibility for sophisticated investors.

Cash: Looking for new opportunities

As we move towards a post-pandemic world, we think that a number of opportunities may arise in financial markets. With the potential for market themes to change in 2021, our cash position allows us to remain nimble in a likely shifting landscape.

VIRAJ B. PATEL, CFA®, FRM®, CAIA
HEAD OF ASSET ALLOCATION

A vaccine is not an economic panacea

3 themes heading into 2021: Income, growth and diversification

Beyond its health impact, COVID-19 has had a dramatic effect on the economy and corporations during 2020. Interestingly, equity returns grinded higher in 2020 largely due to multiple expansion through the performance of a small group of stocks. Meanwhile, aggregate S&P corporate earnings may decline roughly 20% by the end of the year.

Many analyst forecasts anticipate strong growth (perhaps 25%) next year, with broader industry participation. We believe a widening rebound may occur within a climate of gradual and low levels of economic growth.

With hopes growing for an effective vaccine rollout by mid-2021, equities appear to be expecting consumer behavior to return to "normal" in the second half of the year. In some ways, US shoppers and their increased savings[1] may hold the key. Consumption remains well below pre-pandemic levels despite a bounce back in retail sales, as spending on services seems to be tied to the virus. We expect the tailwinds of a vaccine, fiscal spending and pent-up demand to be countered by waning consumer confidence, permanent job losses and high equity valuations.

Stocks are likely to experience bouts of volatility featuring a "tug of war" between economically sensitive cyclical stocks and defensive growth stocks. As a result, we think investors should focus on three themes for 2021—scarcity of income, scarcity of growth and risk mitigation.

Theme 1: Scarcity of income in a lower-for-longer world

The pandemic has led to fewer companies being able to pay dividends. As such, dividend-yielding stocks went unrewarded in 2020 and the flood of liquidity and easy money from the Federal Reserve drove investors to seek high-growth stocks. Our team thinks that 2021 will likely see a recovery in payouts as many companies restore their dividends. Furthermore, with low interest rates and low yields for the foreseeable future, many investors will likely search for dividend-yielding and dividend-growth stocks. Both offer attractive income-generating alternatives to bonds.

A number of dividend-paying stocks are also considered value stocks, such as Energy, Financials and Real Estate companies, which have significantly underperformed this year. Value stocks could recover in 2021 alongside economic improvement. But instead of investing in beaten-down cyclicals on expectations of a market rotation, a more prudent strategy may lie in dividend growth and yield.

Theme 2: Scarcity of growth favors companies that generate their own

The dramatic rebound in third quarter GDP (+33%) was encouraging but also represented a recovery from the deep valley of economic shutdowns. We have a more muted growth outlook going forward. With virus cases increasing, a soft patch could emerge in the first quarter of 2021 before the economy resumes its recovery to an estimated 4% growth rate.[2] Importantly, we expect that the road ahead will not be a straight path—too many unknowns remain on the health front even with promising vaccine news.

Until sustainable economic growth appears, we believe corporate earnings resiliency will be important. A few companies have flourished during the work-from-home environment, with many others challenged by falling consumer demand. Companies that can generate their own growth will likely command a premium.

The pandemic has led to a change in overall consumer behavior, from an acceleration in pre-existing trends to somewhat permanent shifts.

- **Secular trends of remote work.** Industry watchers have long touted the potential for technology to transform the modern workplace, leading to widescale working from home and a reduction in office space. Clearly, COVID-19 has sped up the pace.

  Many firms have already announced plans to have more remote employees even after a vaccine is distributed. This will continue to support the adoption of cloud-based technology platforms, high speed connectivity and digital transformation. Additionally, housing and home improvement trends seem poised to benefit as the de-urbanization shift becomes more permanent, further aided by low interest rates.

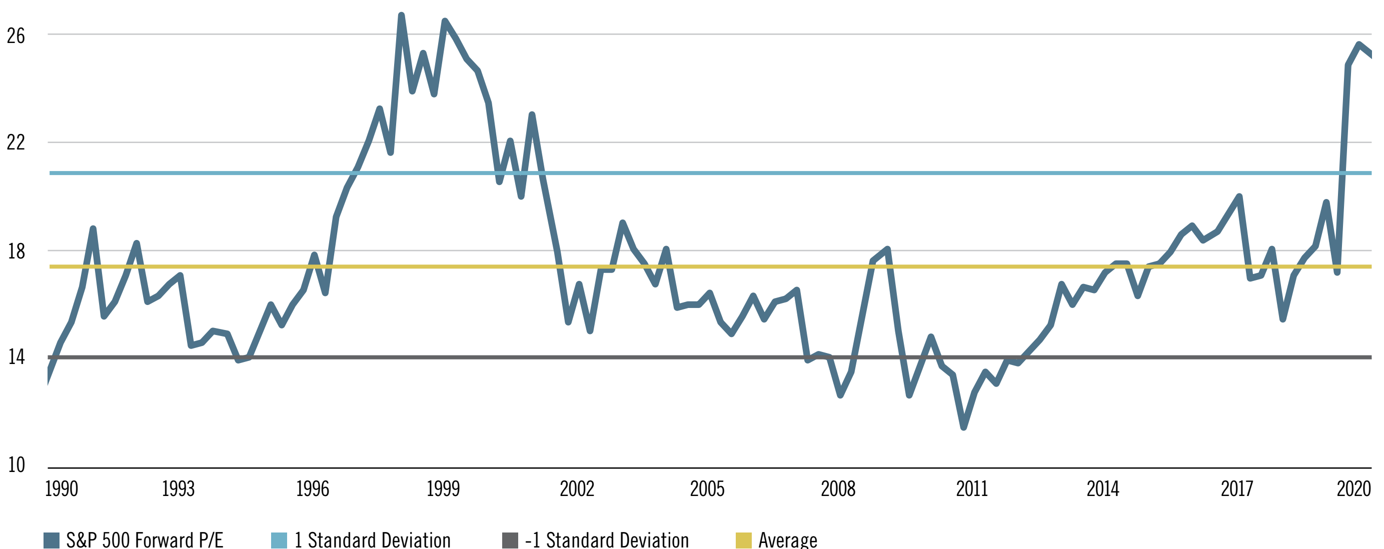
- **Rise of the hybrid model.** People need socializing in some form. This has led to virtual coffee breaks, remote competitions and online wellness classes. The hybrid model of in-person and online interactions will likely remain post-pandemic. Such distanced and digital events will benefit some companies (i.e., social media platforms and online gaming), but will also challenge companies to adapt and innovate.

  With expectations of normalization in 2021, we think that consumers will eventually return to brick-and mortar stores. However, trends in digital payments and online shopping aren't likely to fade given their convenience as online purchases by consumers jumped in 2020 (+36.8%)[3] due to the economic shutdown. Digital commerce has remained at heightened levels as e-commerce has broadened out into many categories including groceries, pharmaceuticals, and food service.

- **Manufacturing shifts**. A shortage of personal protection equipment and other essentials highlighted the need to re-examine production and sourcing for the US as well as other countries. While trade tensions may fade under a Biden presidency, localization of supply chains is a shift that may gain traction. Companies geared to supply chain management, robotics in manufacturing as well as industrial technology could benefit. These areas allow other companies to remain laser focused on cost containment while smart manufacturing can be streamlined.

STOCK VALUATIONS ARE AT THEIR HIGHEST LEVEL SINCE 2000

S&P 500 Index forward price-to-earnings ratio



Source: Bloomberg, as of 11/23/2020.

We believe many of these trends will remain in place post-pandemic due to business productivity gains and positive consumer experiences.

Theme 3: Diversification may help mitigate risk

Growth and momentum stocks performed well in 2020. However, valuations on equities and fixed income have traded at elevated levels recently. The S&P 500 Index price-to-earnings ratio hit a nearly two-decade high at 22x,[4] suggesting that stocks are close to being fully valued at their current prices.

With minimal sources of reliable income at attractive prices, investors have few dependable alternatives. Slow global growth may create power struggles among corporations as they try to grab more market share leading to price competition. Furthermore, potentially increased regulation on businesses and higher taxes could squeeze margins.

Meanwhile, US government debt is projected to roughly equal the size of the US economy by the end of the year[5] and US companies sold more debt during the third quarter than ever before.[6] Combined, high government and corporate debt may create a volatile environment as borrowing tends to magnify the variability in profits. We think this is a time to reduce some risk exposures by diversifying across industries and asset classes.

CARIN L. PAI, CFA®
HEAD OF PORTFOLIO MANAGEMENT

1. Bureau of Economic Analysis, as of 10/30/2020.
2. Bloomberg, as of 11/24/2020.
3. US Census Bureau, 9/30/2020. Retail e-commerce sales jumped 6.75% on a year-over-year basis for the quarter ending 9/30.
4. Bloomberg, as of 11/23/2020.
5. Congressional Budget Office, 9/2/2020.
6. *The Wall Street Journal*, "After Record U.S. Corporate-Bond Sales, Slowdown Expected." 10/2/2020.

What's next for fixed income?

Yields, curves and spreads look beyond coronavirus

The path of the coronavirus should have implications for interest rates, yield curves and credit spreads in 2021 as fixed income markets reflect the evolution of the pandemic.

Interest rate expectations heading into the new year

Short-term interest rates (those with less than three years to maturity), tend to move up or down based on expectations for the future federal funds rate. It is expected that the Federal Reserve intends to keep its overnight rate in the zero to 25 basis point range through the end of 2021 and beyond.

The main driver behind this long-term forward guidance is the Fed's belief that low policy rates will be needed for some time for the US economy to return to full employment and stable prices. Our team believes that short-term rates should follow Fed rate policy and are likely to stay in today's tight range for the balance of 2021.

Long-term interest rates (those beyond five years to maturity) tend to be more sensitive to changes in the growth and inflation outlook. Specifically, higher inflation can erode the purchasing power of future interest payments. Investors will typically demand higher yields as compensation when the risk of inflation increases.

Furthermore, the lagged effect of 2020's monetary and fiscal policy measures, combined with the successful release of an effective COVID-19 vaccine, could set the stage for accelerating GDP and inflation. This, and the massive amount of borrowing required to finance the fiscal stimulus provided in response to the economic shut-down, should lead to potentially higher long-term rates in 2021.

The yield curve could continue to steepen

Our outlook for the shape of the yield curve next year is distilled from our view on the behavior of interest rates. The Fed's new framework for monetary policy suggests that the federal funds rate should remain low for a considerable period to establish inflation expectations near targets for the longer term. Given our views on the direction for interest rates, we believe that the US yield curve is poised to steepen as the gap between short- and long-term rates is likely to continue to increase over the course of 2021.

The Fed has not provided any specific targets for longer-term yields. We believe the Fed will be tolerant of some modest increases

in longer-term yields if they remain consistent with continued progress toward the Fed's price and employment goals. The nomination of Janet Yellen as US Treasury Secretary should act as a positive influence with respect to the Fed's ability to cooperate with the Treasury on policy programs aimed at satisfying the Fed's objectives. We think that the Fed will embrace a policy stance that maintains a positively sloped yield curve that a Yellen-led Treasury would also support.

Credit spreads likely to provide positive dynamic for issuers in 2021

Bond spreads have tightened considerably since the widening that occurred in March and April as the US economy shut down in response to COVID-19. Optimism surrounding the economic reopening partially influenced this move, but the Fed's emergency credit measures also provided solid support. Our team does not expect a wide repricing of credit in 2021 as happened in early 2020. However, given current valuations, we also see limited opportunity for aggressive spread tightening to take place from today's levels.

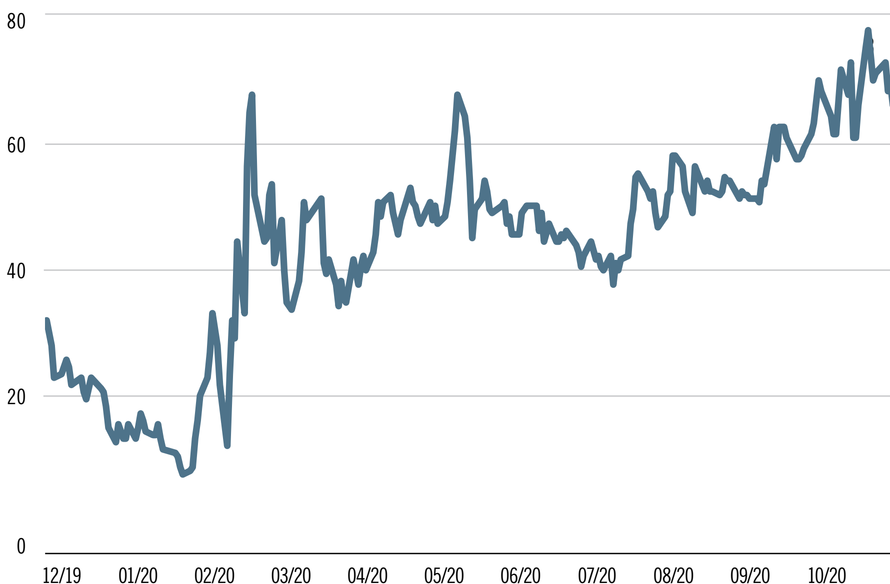
While many of the Fed's emergency facilities expire at the end of the year, corporate and municipal credit markets seem to have taken the news in stride with confidence in an improving economy and continued monetary and fiscal policy support.

Credit related sectors in the year ahead

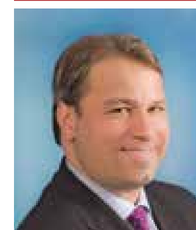
- **Investment grade.** Record issuance during 2020 has led to solid liquidity in the corporate market as issuers built up cash levels and refinanced higher coupon debt. Investor demand for yield moving into 2021 should remain supportive for the asset class. We expect supply to moderate in 2021 relative to the past year's record levels.
- **High yield.** Issuers have primarily used 2020 to refinance higher-coupon existing debt. Lower quality issuers, many with high sensitivity to the COVID-19 shut-down, will likely take advantage of liquidity raised this year to maintain operations in advance of a reopened economy later in 2021. Spreads could moderately tighten in an improving economy as fundamentals stabilize and investors continue to actively search for yield.
- **Municipals.** Budgetary pressure for the next fiscal year is likely to see some relief from the economic reopening and potential state and local fiscal support in the wake of the November elections. The risk of higher taxes, while lessened by a likely split government, should support demand. Election results at the state and local level may begin to influence policy over the course of 2021 with a divided government mitigating the risk of radical policy changes that earlier expectations of a Blue Wave election result kept elevated.

STEEPENING YIELD CURVE SUGGESTS THE RECOVERY SHOULD CONTINUE IN 2021

10-year US treasury yield minus 2-year US treasury yield (in basis points)



Source: Bloomberg.



JEFFREY S. MACDONALD, CFA®
HEAD OF FIXED INCOME STRATEGIES

Private equity in a bifurcated landscape

Staying disciplined is key

Private equity has become an increasingly attractive tool for sophisticated investors to enhance the return potential of their portfolios. Its appeal appears to have grown even more given the low yield environment. Yet, private equity comes with several caveats—namely the increased risk from illiquidity and higher management expenses. Plus, it requires a long-term mindset.

Within private equity, the dispersion from top to median performers illustrates the real attraction of the asset class compared to public markets, which often are more efficient. The most compelling risk-adjusted returns relative to public equity have been in the top quartiles of private equity funds where the difference from the median is measured in hundreds and, in some years, thousands of basis points.[1]

A long-term view and diversified approach are key

Investing in private equity takes time. A manager's process usually includes obtaining capital, finding suitable investments, creating operational and financial value and finding exit routes to maximize the investment. It's designed to reward investors who have a long-term horizon embedded in their overall asset allocation plan and take a consistent, disciplined approach.

This past year has shown that markets can be unpredictable. In any market environment, investing in private markets is difficult to time. A commitment strategy that allows an investor to consistently achieve and maintain a targeted private equity exposure can be just as important as determining the initial allocation.

The key is maintaining a steady allocation pace across vintages (the year in which a fund is raised) and strategies. This discipline adds diversification within private equity allocations as well as an investor's broader portfolio. Given that each private equity fund typically runs its course over 10 plus years, making commitments across various strategies attempts to capture multiple return drivers for particular time periods.

Opportunities arising from change

During 2020, many businesses have been forced to cut costs, change business plans, pivot and evolve, requiring operational expertise and cash infusions. However, the pandemic has also brought opportunities. Strong

THE PRIVATE EQUITY MARKET OFFERS A DIVERSE SET OF STRATEGIES

Internal rates of return by vintage year and by strategy (2003 to 2018)

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
16.6%	11.1%	12.1%	9.1%	15.8%	13.5%	17.9%	25.1%	23.5%	19.1%	20.4%	20.9%	20.3%	26.1%	27.9%	35.4%
16.5%	10.8%	8.4%	8.4%	11.5%	13.3%	14.8%	15.5%	17.3%	15.3%	17.0%	19.3%	19.1%	23.6%	22.5%	19.1%
16.5%	10.5%	8.0%	8.3%	11.1%	13.1%	14.3%	14.0%	14.9%	12.1%	13.6%	16.2%	14.9%	18.6%	15.9%	13.8%
9.7%	8.6%	7.8%	7.7%	10.0%	11.1%	15.8%	12.2%	14.1%	11.7%	12.1%	13.9%	12.8%	15.1%	14.8%	9.5%
8.8%	8.1%	6.5%	7.5%	9.3%	10.5%	8.5%	11.6%	13.7%	11.2%	9.2%	11.8%	11.0%	13.6%	4.2%	8.7%
N/A	6.6%	6.2%	7.1%	9.2%	6.8%	7.9%	4.1%	7.5%	10.5%	4.3%	9.2%	5.4%	8.2%	3.1%	5.4%

Buyout · Growth equity · Venture capital · Controll-oriented distressed · Subordinated capital · Secondary funds

Source: Cambridge Associates, as of 6/30/2020.

tailwinds exist in healthcare, logistics, e-commerce and all things digital, fueling demand for new solutions and business models. However, the most dislocated sectors (i.e., retail, travel, and energy) face continued uncertainty.

Private equity was built for creating long-term value resulting from change. The backdrop of rapid adoption, technological acceleration and economic uncertainty may bode well for private market investors. However, the market has only slowed in spots (not paused) and valuation remains key. While private equity deal volume is down, median buyout multiples have been steady in 2020 from record 2019 levels.[2] Venture capital has shown even more resilience,[3] partially fueled by the robust initial public offering market, which offers private equity investors important exit routes.

With liquidity infusions drying up and a divergence of business outcomes, uncertainty and distress usually reward liquidity providers, operational expertise and other factors unrelated to price. Companies with challenged balance sheets, large corporations needing to shed divisions and founder-owned companies seeking liquidity can create interesting entry points for private equity. Often these are quality companies experiencing one-off events. Finally, we think the need for new business models and solutions in areas like healthcare and technology may continue to support valuations of certain high-growth companies.

KATE HUNTINGTON
HEAD OF ADVISORY SOLUTIONS GROUP

1. Cambridge Associates, as of 6/30/2020.
2. Pitchbook Data Inc., as of 10/8/2020.
3. Pitchbook Data Inc., as of 10/14/2020.

The rising appeal of sustainable investing

Coming of age during the pandemic

There is little doubt that sustainable investing is on a tear. After receiving a record $24.1 billion in net inflows last year, sustainable mutual funds and ETFs in the US attracted that same amount by August of this year.

We expect that growth to continue into 2021, but the nature of sustainable investing will likely change. The year 2020 may come to be regarded as an inflection point, when sustainable investing shed its perception as a fashionable trend and became a respected investment discipline

Sustainable performance has been strong

The coronavirus has been key to changing investor attitudes. Sustainable investment strategies have generally outperformed their traditional peers this year, both when the pandemic sent the market spiraling in March 2020 and in the subsequent rebound. As of September 30, over 70% of sustainable equity funds ranked in the top half of their categories and over 40% were in the top quartile. Their resilience has helped dispel the myth that "sustainable investing" is just a euphemism for underperformance.

The pandemic, along with the western wildfires and the national reckoning with racial injustice, have also given Wall Street a greater appreciation of the kinds of environmental and social tail risks sustainable investors have long cautioned against. Companies that take care of their stakeholders and not just their shareholders are better positioned, in our view, to weather crises and generate long-term value.

We expect to see more traditional investment managers integrate environmental, social, and governance (ESG) analysis into their investment processes going forward. At Fiduciary, this concept has been embraced and embedded into our research process, along with fundamental analysis.

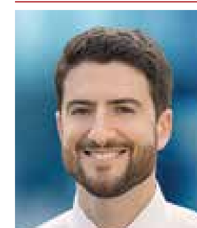
Authenticity could be key for investors

With the massive inflows into sustainable investment strategies comes the risk of "greenwashing," the practice of giving otherwise ordinary investment products a patina of sustainability. Authenticity will become a key differentiator. Companies that engage with their stakeholders, disclose ESG data relevant to their financial performance and demonstrate progress on key ESG challenges should stand out. Meanwhile, the managers that are likely to earn investors' trust will be those that dedicate resources to ESG analysis, articulate its contribution to investment performance, and draw from robust and varied data sources.

A new role for regulators

The popularity of sustainable investing may also invite greater intervention from government. The European Union recently adopted a taxonomy of "sustainable activities" that will be used to standardize climate-related corporate disclosure. This is part of a broader regulatory regime that takes direct aim at greenwashing with provisions that come into effect next spring. While US regulators have so far balked at calls for comprehensive ESG disclosure requirements, we expect that to change under a Biden administration.

Financial outperformance, the threat of mimicry and the advent of regulation—what clearer signs could there be that sustainable investing has entered the mainstream?



JEFF FINKELMAN
SENIOR RESEARCH ANALYST

How to make smart financial decisions

Taking action when life is filled with uncertainty

We all make countless decisions every day. Financially, our decisions range from everyday choices, like whether to splurge for the expensive coffee, to major once-in-a-lifetime events, like selling a business, retirement, purchasing a home or moving to a new state.

In 2020, these decisions took on new meaning as we adjusted to life amid a global pandemic. Looking forward to 2021, we hope these concerns will settle down. But as the decisions continue to arise, the heightened uncertainty is also likely to persist.

How much should you give to charity in 2021? Is this the year to begin gifting to your kids? Should you be rebalancing your portfolios? Do you need to revisit your estate plan? Is now the time to terminate a trust, or create new ones? These questions all involve variables and uncertainty in normal times. Add in a continuing global pandemic and the most impactful financial question for 2021 may simply be: How can we make better decisions amid all the uncertainty?

Our problem with uncertainty

Imagine you have a choice. In front of you are two bags. I will give you $100 if you select a red marble out of one of the bags. In the first bag, half are red, and half are blue. The second bag contains the same total number of marbles, and all of them are either red or blue, but you don't know how many of each.

Which bag do you choose? If you're like most people, you'll choose the first bag.[1] Intuitively, this makes sense to most of us. But does this really make sense?

Based on the available information, the probability of selecting a red marble is 50/50 with both bags. The first bag contains half of each color marble. Easy, 50/50. The only information you have about the second bag is that it contains red and blue marbles. If you consider all possible combinations of red and blue, half the time there are more red and half the time there are more blue. In other words, when you choose the first bag, there's a 50% chance you put yourself in a better position to select a red marble and there's also a 50% chance you do the reverse. Again, 50/50.

If you need to read that paragraph again, please do. The fact is our instinct to choose the first bag —our aversion to uncertainty or ambiguity—is so strong that we tend to reject the idea of there being anything irrational about it. But if half the time the devil we don't know is better than the devil we do, the problem isn't with uncertainty. The problem is with us and our instinct to avoid uncertainty when making decisions.

Solutions for your financial life

Turning back to our financial lives, our aversion to uncertainty can easily lead us astray. We regularly make financial decisions. At the same time, uncertainty is everywhere—from capital markets, interest rates and tax rules to life expectancy, costs of living and the emotional impact of money. If we follow our instincts and turn away from uncertainty, that choice may not always lead us to the best possible outcome.

The value of a business may decline. We may miss out on time spent in retirement. We may increase our tax bill while waiting for tax policy to clarify. Of course, the opposite may also occur. The trick is to recognize when we may be leading ourselves astray and understand the less rational instincts uncertainty may prompt in us.

1 Avoid filling the gaps. One theory for what we're doing when we avoid uncertainty is that we fill in the gaps.[2] We don't know if the coat we want will go on sale, so we decide on a probability in our heads to allow ourselves to decide whether to buy it.

This may sound silly. But if we're honest, we do it all the time.

For minor financial decisions, like buying a coat, this is not a big deal. But for more major financial decisions, like whether to sell a concentrated stock holding, cash in a life insurance policy or make a significant gift to your children, we fill in the gaps at our own expense. In contrast, if we avoid filling the gaps, we may not have easy answers, but it can force us to look for better reasons for our solutions.

2 Surround yourself with trust. A second theory for our aversion to uncertainty is we simply don't trust it.[3] We assume uncertainty comes with deceit and run the other way. *Why can't I tell you the percentage of red and blue marbles in the second bag in our hypothetical? Am I lying to you? Do I even know? It must be rigged!*

This makes sense if there is deceit. Not so much, if there isn't. The challenge is telling the difference.

Major financial decisions are usually complex. The person who argues away the uncertainty likely *is* deceiving you. But you can take the edge off the uncertainty and allow yourself to make better decisions by seeking guidance from professionals you trust and weeding out influences you don't.

3 Increase your level of understanding. A key service any professional advisor provides should be education. This has the double impact of building trust and building your sense of competence, which is another factor in how we deal with uncertainty.

Not surprisingly, we tend to avoid uncertainty more when we feel less competent.[4] At Fiduciary Trust, we try to educate as much as advise because we know it helps you engage in what otherwise may seem like untenable decisions. It also can help guard against the pitfall of risking too much uncertainty when you feel more confident.

Be armed for uncertainty

The thing to remember is you're not alone. It's been estimated 10,000 people a day retire in the US.[5] Reports have shown a similar number of businesses are sold each year.[6] Each situation is unique. By recognizing the similarities of our situation to the situations of others, we can prevent ourselves from making decisions based on a limited or false understanding of those facts.

Financial decisions seldom involve certainty, and 2021 may not provide any further clarity. But by facing the uncertainty head on, surrounding ourselves with knowledgeable and trusted individuals, and realizing we're not unique in the questions we face, we may better position ourselves to make the decisions we need to make. Of this, we're certain.

NICOLE BENNETT PRICE, CFP®
SENIOR TRUST OFFICER

BRYAN KIRK
DIRECTOR OF ESTATE AND FINANCIAL PLANNING AND TRUST COUNSEL

1. John Maynard Keynes first used this example in 1921 to explain the concept of probable error, and Daniel Ellsberg then used it in 1961 to develop the concept of ambiguity aversion, which explains our tendency to choose against a more ambiguous or uncertain situation. John Maynard Keynes, *A Treatise on Probability*; Daniel Ellsberg, "Risk, Ambiguity and the Savage Axioms," *The Quarterly Journal of Economics*.
2. Models can be developed to fill the gaps effectively, but our day-to-day attempts are not typically as robust. Yahov Ben-Haim, "Info-Gap Decision Theory" in *Decision Making in Deep Uncertainty*.
3. Roberto Lima Filho, "Rationality Intertwined: Classical vs Institutional View."
4. Chip Heath and Amos Tverskey, "Preference and Belief: Ambiguity and Competence in Choice under Uncertainty," *Journal of Risk and Uncertainty*.
5. https://www.stlouisfed.org/on-the-economy/2019/may/how-many-people-will-be-retiring-in-the-years-to-come.
6. https://www.bizbuysell.com/insight-report

Lessons learned

Successfully tackling life's major transitions

Financial and estate planning often becomes a central issue during major life events such as divorce, the death of a spouse or during the sale of a major asset, like a business or a home. Transitions are part of normal life, but the COVID-19 pandemic has been a catalyst for more of these changes in recent months, and we expect this trend to continue into 2021.

Our financial planning and trust and estate experts provide their best advice to clients facing life changes.

Q: What is the first thing you tackle when you are helping a client with a major life transition?

CHRISTINE: The first step is to assemble the team of experts that will best serve the client's needs. That team may differ depending on the situation, but it almost always includes a trust and estate advisor, a tax advisor and an investment professional. It also usually includes a specialized attorney, for example in the case of a divorce or sale of a business, or other experts depending on the problems that need to be solved.

GERRY: In cases I've worked on, especially in divorce, it's common for clients to say they don't need professional guidance, that they can work it out amicably among themselves or with a mediator. This is probably the biggest up-front mistake I see, and the costliest one down the line.

Having your own independent attorney or financial expert, even when you could potentially rely on someone else, is the best way to make sure all parties have independent access to information, and that the same information is available to everyone.

Q: How do you help reduce stress during times of change?

KEVIN: We understand that the stress that comes with significant transitions can make tasks like managing financial obligations seem almost impossible. This is especially true when someone loses a spouse or parent.

We find that too many people don't have the conversation ahead of time. They don't talk about it, so it often adds to what is already a stressful

and emotional time when there is a lack of a good understanding of the family's financial picture.

My advice is to share information and discuss your financial circumstances with one another early and often. There are always exceptions, but the more information your spouse or children have, the better equipped they will be.

Also, from a practical perspective, you want to make sure there are funds available for immediate needs. For couples, I always recommend having a joint account with enough funds to support a surviving spouse for at least a year. Funds can get locked up if you're waiting for probate or if there's a change of trustee. A joint account will alleviate the timing issue and relieve financial stress until the remaining assets become available to you.

LESLIE: The most important advice I can give, regardless of the transition you may face, is to gain control over your financial picture as soon as possible. This means cataloging your finances—know what you have and how much you spend. There is always a lot of fear and anxiety around this exercise if you're doing it for the first time, especially when it's in the middle of making a major life decision or during an emotionally sensitive time.

Having a handle on this information provides peace of mind and allows you to see your next steps more clearly.

GERRY: And, although it is sometimes tempting to do, I advise clients to try to avoid making significant financial decisions right away. Don't sell your home, move to a new city or change jobs. You need time to review your situation before you can make decisions clearly.

Q: What's the best way to take control of changing situations?

GERRY: Making informed decisions starts with identifying your goals. For example, I recently helped a client who was working through a divorce. Her most important goal was to keep her home, but she wasn't sure if she could afford to do so. We helped her identify her priorities in terms of what assets she wanted to keep and assessed the financial as well as the emotional value she placed on those assets.

LESLIE: In any financial matter, it's important to understand that all dollar amounts are not created equal. Receiving a house with a significant built in capital gain in a settlement may be less financially beneficial than receiving the equivalent value in cash. If you sell the house, your after-tax proceeds

will be far less than the sale price. If there is an emotional connection to the house, as there was in Nita's example, this may not matter to the recipient, but it should nonetheless be considered in the negotiations.

CHRISTINE: The same is true in the case of a sale of a business. You need to understand the significance of the sale in the context of your own personal goals. Does it make sense to sell now or later, based on where the business is headed or your own needs?

If you sell now, can you afford to live on the proceeds for the rest of your lives? Does it allow you to carry out any legacy plans you might want to put in place? Asking these questions and running projections of various scenarios can help you narrow in on the best course of action.

Q: Are there steps people tend to forget after they have gone through a major transition?

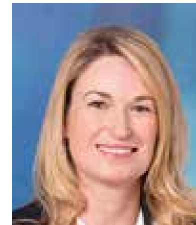
KEVIN: When your life changes, you need to think about your estate plan. You also need to make sure your accounts and insurance arrangements reflect any changes in ownership. We have seen some nightmare scenarios where estate plans aren't updated after a divorce or death in the family, and even in happy events like additional children or grandchildren, or a significant change in financial position. If something happens to you, following through on all the details can save your family from complications and maybe even legal battles.

CHRISTINE: In the case of a liquidity event like the sale of a business, it's common to overlook the ripple effects of your new wealth. Personal insurance coverage may be inadequate. The estate plan may miss out on tax savings opportunities.

People often dismiss updating smaller accounts or miscellaneous property interests, like an inherited interest in a family property. But often these are the ones that cause the biggest problems to sort out.

LESLIE: Lastly, you need to keep track of changes in the lives of others you may rely on. This includes people you've named as guardians, agents, executors or trustees for your family. It also can include the team of professional advisors Christine mentioned earlier. As a corporate trustee, we regularly partner with the family members and professionals in your life to be the backstop, make sure work gets done, and alleviate the impact of anyone being unable to act.

LESLIE BOHNER
CHIEF FIDUCIARY OFFICER AND GENERAL COUNSEL, PENNSYLVANIA REGION



CHRISTINE BROWN
TRUST COUNSEL

KEVIN DUNCAN
DIRECTOR OF ESTATE ADMINISTRATION AND TRUST COUNSEL

GERRY JOYCE
NATIONAL HEAD OF TRUSTS AND ESTATES

Coronavirus and the sandwich generation

How to support children and parents without getting squeezed

The coronavirus pandemic poses risks and concerns for the oldest Americans. It also has put strains on the youngest, leaving the generations in the middle facing the increasing pressure of having to take care of both.

If you are a member of the "sandwich generation" you are not alone. Nearly half of adults in their 40s and 50s are caring for a parent who is 65 or older while also raising or supporting children.[1] The stress of serving as a caregiver to multiple generations can weigh heavily on your emotional and financial wellbeing, even without the additional complications that come with COVID-19, such as caring for school-aged children who are now learning from home, much less planning for anyone's future on the other side of the pandemic.

To navigate this phase of life, one of the most important steps is to make sure you have a comprehensive financial plan in place for all the generations in your life. By having a plan and revising it as life develops, you can put your responsibilities into their proper perspective.

Organize your personal situation

Start by getting a good handle on your own overall financial picture. Create a net worth statement of all your assets and liabilities and track your income and expenses to understand how much you are spending, how much you are saving, and how much you need.

- **Separate expenses for parents and adult children.** If you are covering expenses for your parents and adult children, separate them out. This will help you understand the level of support you are giving them so you can balance your own needs against those of your parents and children going forward.
- **Reset your emergency fund.** Having more people in your life means more chances for emergencies. Boosting your emergency savings gives you peace of mind and helps you plan for the unexpected—whether that means replacing the roof on your home, funding an extra year of college or hiring a home health aide to care for your parents.
- **Don't neglect your opportunities.** The old trope of the person too busy taking care of others to take care of themselves can apply financially too. Financial opportunities take many forms. Refinancing or paying down high-interest debt can free up cash to help you meet your goals. Make sure you're contributing to your retirement accounts. Be tax smart with your charitable giving and engage with your investments, particularly with any concentrated holdings or stock awards you may have received through work.

Plan for the needs of your children

Several savings vehicles are available to support your children. For larger estates, a thoughtful giving plan is typically the centerpiece of your estate tax strategy. Trusts and other structures can provide the tax and financial benefits of gifting while addressing practical concerns like how soon a child can access the funds and what the funds can specifically be used for.

- **If you have young children.** Earmark funds for their education and take steps to open and fund college savings accounts. Funds can grow tax-free in a 529 College Savings Plan account. In addition, you can front-load five years of annual exclusions to a 529 Plan. This enables a couple to give $150,000 in a single year ($30,000 combined annual exclusion times five) to a child's 529 Plan account. The account can grow tax-free until you withdraw qualified education expenses, which can include up to $10,000 for K-12 education.
- **If you have older children.** Crunch the numbers to estimate the full cost of college, including tuition, living expenses, supplies and unexpected costs. Then evaluate the range of options to meet those costs. This should include financial aid, 529 Plan accounts and other funds earmarked for education, direct payments to be made by you or other family members (which do not count against the $15,000 annual exclusion) and amounts you may want or expect them to contribute themselves.
- **Don't go it alone.** We regularly help clients run the numbers on how much they need to save for their children's education and how it coordinates with their other financial goals. We will also help them evaluate the benefits of a 529 College Savings account, whether comparing different account options or balancing the tax savings of creating an account with the estate tax benefits of making direct tuition payments when due.

Understand your parents' financial lives

It can help to think of caring for your parents as another one of your financial goals—like saving for retirement or funding a college education for your children—rather than a personal or financial burden.

- **Take inventory of your parents' financial lives.** Parents often don't want to burden their children with their financial challenges. It is also important to respect their privacy and independence. But the sooner you get a general handle on their income, expenses, assets and liabilities, the better. An introduction to their accountant and any other professionals they work with will help ensure you are kept well informed. You don't necessarily need to know all the details and values, but if your parent suffers memory loss or an illness that prevents them from handling their day-to-day affairs, you may not be able to locate important financial documents and the information they share with you may be limited.
- **Investigate health benefits.** Identify the supplemental insurance coverage and social programs your parents rely on. The tax rules, insurance benefits and regulations surrounding elder care, including home care and assisted living facilities, are complex and extensive. An elder care professional can explain how they work, guide you through the process, ease your stress, and ensure you are making the right decisions for your loved ones.
- **Know who has power of attorney.** Make sure everyone is on the same page and documents are in place for handling your parents' health care decisions and financial matters in the event of incapacity. Coordinate with siblings and other family members who often can take on specific tasks, even if they live out of state. For example, while you might pay bills, they might research benefits, check on your parents by phone or visit in person occasionally to give you a well-deserved break.
- **Consult with professionals.** Depending on your parents' asset level, they may qualify for governmental benefits to assist with their healthcare needs. Consult an Elder law attorney to determine what benefits may be available and the rules surrounding the various programs. In addition, a review of your parents' estate plan to determine tax implications and potential resources for their care will help you make well-informed decisions. Your Fiduciary Trust representative can assist with recommendations.

Have a contingency plan

Never underestimate how important you are to the people around you. Make sure you have a plan to fill the gap if you are no longer able to do everything you are doing today.

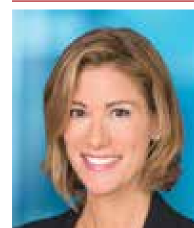
Estate plans typically address the needs of your children, but they often don't address the critical care and support you may be providing for your parents.

If your parents are living with you, you should make sure your estate plan accounts for their needs if you pass away before them and your house must be sold. If you are providing financial support for your parents, trusts can be used to replicate that support while also fulfilling the goals of your estate plan after their deaths.

The good news is solutions can be plentiful. The key step is to take the time to identify all the needs you're trying to fill and, one-by-one. Address the unique circumstances that surround you.

LETICIA HERNANDEZ
TRUST COUNSEL

JENNIFER McCARTHY
TRUST COUNSEL


PAULINA MEJIA
REGIONAL MANAGING DIRECTOR AND TRUST COUNSEL

1. Source: The Pew Research Center.

Thinking of moving?

5 financial questions to ask before packing up

When the coronavirus broke out in early 2020, working from home became the new normal for many people. Suddenly it became possible to work remotely and live just about anywhere. At the same time, some city-dwellers started thinking about staying safe by moving to less densely populated areas such as the suburbs or their vacation homes. And some "snowbirds" who usually fly south for the winter decided to stay through the spring and longer.

There's no question that Americans are on the move, which could change the nature of many cities and towns. It also poses financial and tax questions for those who are thinking of relocating. In this Q&A, our experts look at this challenge, answering five commonly asked questions about how to find the best place to live.

Q: Is there a simple way to determine if I'll save money by moving to another state?

ANNE MARIE: You'll need to crunch the numbers to fully understand the potential costs and savings associated with relocating. This includes state and local income taxes, sales taxes, state-level estate or inheritance taxes and real property taxes. In addition, you need to ask yourself whether your cost of living, independent of taxes, will be lower or higher. Don't forget to factor in the cost of travel for family visits or return visits to your old home.

It's important to understand that each state's tax rules are different, sometimes in subtle ways. You need to know both your numbers and the statutes to calculate the financial benefits of moving.

Q: If I own homes in more than one state, where would I pay income tax?

CRAIG: I often receive calls from clients who are grappling with this question because it can get complicated. For example, someone could have a vacation home in Connecticut or New York but be domiciled in New Jersey.

The starting point in most cases is where you are officially domiciled—that is, where do you consider your permanent home? You can only be domiciled in one state and you are subject to income tax in that state. To determine domicile, auditors look to primary factors such as where you have homes, where you do business, the amount of time you spend in various locations, where you keep your "near and dear" items and where your family is located. No single factor is determinative so they will often look at secondary factors such as where your financial statements and bills are sent, where your car is registered and where you are registered to vote.

Once your domicile is determined, from there, you need to look at the other states where you spend time and determine whether your connections to that state are sufficient to be subject to tax. Often, it's a question of time spent in the state. For instance, if you are domiciled in Connecticut but also have a permanent home in New York and you spend more than 183 days in New York per year, you are considered a New York "statutory resident" and will be subject to state income taxes on all of your income.

Q: Does owning homes in different states increase the odds of being audited by the states?

CRAIG: Owning a home in multiple states within itself may not increase the odds of being audited by a particular state. However, a change in your residency status in one of those states clearly may draw a state's attention. In the final year of paying tax to a state that has an income tax, you will file a part-year resident return. This can be a flag to that state that they are losing a taxpayer along with revenue.

You will be required to declare which date you moved out of that state. That seems simple but not always. Determining what date you changed your domicile will be a starting point in the audit process. If you've had a vacation home in Florida and file a final year income tax return in New York, you need to determine when you changed your domicile if you retain your New York house. Expect to explain the timing to New York if there is an audit. The value and size of both homes will be questioned. This may be easier to explain if you retired and no longer need to be in New York to work.

The time to prepare for an audit is before you file your last tax return in that state. You will be asked to share cell phone records, credit card bills, travel bills and EZ pass records. And perhaps most of all, moving expense records. When most people move, they literally need to move. If you aren't packing up your possessions and sending them someplace else, you will be asked by an auditor how it is that you changed your domicile.

Q: What estate planning issues should I consider before moving to another state?

ANNE MARIE: In 2021, the 40% federal gift and estate tax will apply to estates valued at more than $11.7 million for individuals and $23.4 million for married couples. So, if a husband and wife with assets of less than $23.4 million both died in 2021, their estate would not be subject to the federal gift and estate tax.

But if you are thinking about moving to another state, keep in mind that 12 states and the District of Columbia impose their own separate estate tax in addition to the federal estate tax. Six states have an inheritance tax. Maryland is the only state to impose both.

GAIL: There also could be implications if you move and the executor or trustees you've named in your estate plan now lives in another state. And, if you don't move but your executor or trustee does, there could be implications. Be sure your executor or trustee meets the qualifications of your new home state and it is still practical for him or her to serve.

Out-of-state executors may need to post a bond. It also can be more time-consuming and expensive for someone who lives out of state to deal with all the details and logistics of sorting through tangible personal property or the sale of a home. Finally, your location or the location of your trustees might impact the trust's state income taxation. It might be more convenient to appoint a corporate executor or trustee.

Q: Will my trust be taxed any differently if I move to another state?

GAIL: Trust income taxes are based on a hodgepodge of different factors in different states. Depending on the state, the trust's income tax might be based on the domicile of the person who created the trust, the state where the current or remainder beneficiaries live, the state where the trustee lives, the state where the trust is administered or even where the trust assets are managed. In addition, some states tax a testamentary trust but not an identical trust created during a person's lifetime.

Also keep in mind that if a trustee or beneficiary of a trust moves, there may be state income tax implications for the trust. If this happens, consider changing trustees or segregating trusts with multiple beneficiaries.

If you are thinking about creating an irrevocable trust, either to capture the record-high federal estate tax exclusions or for any other reason, think about whether you want to create your trust before you move or after you move. Carefully examine state trust laws and taxes. If you're moving from New York to Florida, for example, you might want to wait until after you move.

GAIL COHEN
CHAIR AND GENERAL TRUST COUNSEL

CRAIG RICHARDS
DIRECTOR OF TAX SERVICES

ANNE MARIE TOWLE
REGIONAL MANAGING DIRECTOR AND TRUST COUNSEL

How to plan your estate when tax laws are in flux

Being proactive helps you stay ahead of change

Do you know your legacy? It takes work to plan who you want to give your assets to, understand what exactly they may receive and decide how they will ultimately receive it. But just when you think you have it all set, the tax rules change.

Since it's nearly impossible to know exactly what will ultimately pass to your heirs because of the fluidity in the tax laws, it can be challenging to decide on how to structure your assets or even decide who you want to give what.

With a new administration in Washington, we are once again waiting to see whether our tax laws will change. For 2021, individuals can leave $11.7 million to anyone during their lifetime or at death without being subject to federal gift or estate taxes (married couples can give $23.4 million). But those amounts are scheduled to be cut in half in 2026 and could change sooner under the new administration.

In addition, we could see a change in the rules that allow you to avoid capital gains on the sale of assets you inherit—the so-called "step-up" in income tax basis. Changes may occur as soon as 2021, or they could occur after the next elections in 2022, or those in 2024. State rules vary and also can change, as we've seen recently in California and Connecticut.

5 strategies that can help you take control of your legacy

1. Know your goals

It's easy to tiptoe into estate planning. Many people complete wills, powers of attorney and revocable trusts as they need them. Others may start making annual exclusion gifts of $15,000 (or $30,000 for a couple) to their children because they realize there's a tax benefit. Depending on the size of their estate, some people may also consider larger or more complex gifts.

The problem with this approach is that the vision for what they really want to happen with their assets is not developed. And it's that vision that provides stability and guides you when the laws change.

For example, a client wanted to leave $10 million to his son and give the rest of his assets to charity. With the federal estate and gift tax exemption decreasing in 2026 or possibly sooner under the new administration, his vision for his legacy allowed him to decide what to do. He decided to make the $10 million gift to his son now, while he could do it without tax under the current rules. He then updated his estate plan so the rest of his estate would go to charity at his death, without a tax implication at that time.

2. Seize "no regrets" opportunities

Once you know your goals or vision, there are often opportunities you can take advantage of immediately. This could mean funding 529 College Savings plans for your grandchildren, funding your private foundation or donor-advised fund to fulfill your philanthropic goals, or putting aside money to help your children buy a first home when they're ready.

There is generally an estate tax benefit to making gifts sooner rather than later. That's because any future appreciation of the assets isn't subject to estate tax since it's already in the hands of your beneficiaries. Many people miss out on this advantage. They also may find themselves on their heels when

laws change, scrambling to do things they want to do before it's too late rather than having the satisfaction of knowing they're already making progress.

Making a lifetime gift can be a big decision but making these gifts in trust can help alleviate some concerns, such as giving up use of a property or retaining access for your spouse. For example, if you want to give a vacation home to your children, you can use a Qualified Personal Residence Trust (QPRT) to discount the value of your gift for estate tax purposes. This kind of trust also allows you to live in the residence for a period of years. Another type of trust, a Spousal Lifetime Access Trust (SLAT), can be used to make a gift to future generations while allowing your spouse to access the trust funds during his or her lifetime. Trust strategies such as these often create significant tax benefits.

3. Understand your scenarios

Of course, not all estate planning is straight forward. Large gifts involve a range of factors, including family dynamics and governance. From a tax perspective, your plan should embrace the reality that rules change, and it's impossible to be certain what the rules will be when you die.

When we evaluate larger, complex gifts, we run scenarios for various estate tax rules, such as if exemptions stay where they are, drop to $5 million or $3.5 million, or the step-up in income tax basis is removed. The result can be a complicated spreadsheet, but this information allows you to be more confident in the gifts you make and the positive impact for your family.

Knowing your options can also lead to specially drafted trusts and other structures designed to optimize your tax benefits. For example, you may use Grantor Retained Annuity Trusts (GRATs) to pass appreciation to your family tax-free without using your exemption amount. Or you may fund a Family Limited Partnership to provide for governance and discounting opportunities that may go away in the future with decreasing exemption amounts.

It's possible to build flexibility into your trust. Naming a Trust Protector can allow for changes to a trust instrument if the law changes. Locating your trust in Delaware can also add flexibility because the law can make it easier to make changes and adapt to circumstances as they develop.

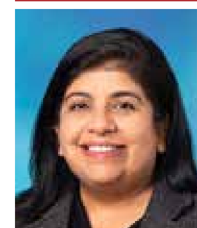
4. Don't set aside your plan

Treat your estate plan as a living document, not simply something that is used when you die. You have a range of options for how you leave your assets to your heirs. In one extreme, you could give them their entire inheritance today. On the other extreme, you could leave it in trust when you die to be held for your descendants long into the future. In between, there are many opportunities that you can take advantage of if you are engaged in the process.

Actively engaging with your estate plan also can bring out the non-financial aspects of wealth. Your engagement may prompt education opportunities for your children, help you better understand the personal relationships around the family's assets and come closer to finding a purpose in your wealth beyond the goals you've set for yourself.

THERESA MCGINLEY
DIRECTOR OF TRUST ADMINISTRATION AND TRUST COUNSEL

ANNA SOLIMAN
TRUST COUNSEL



NITA VYAS
TRUST COUNSEL

GROWING AND PROTECTING WEALTH FOR GENERATIONS

Fiduciary Trust International is a wealth management firm founded in 1931 by families for families, with a singular focus on growing and protecting your wealth through generations. We work closely with individuals, families and foundations to build and manage personalized investment portfolios, and to develop estate plans that extend wealth to future generations.

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fiduciarytrust.com

Fiduciary Trust International Offices

New York, NY
(877) 384-1111

Arlington, VA
(703) 647-4132

Boca Raton, FL
(561) 226-3400

Coral Gables, FL
(800) 618-1260

Fort Lauderdale, FL
(561) 226-3400

Lincoln, MA
(781) 274-9300

Los Angeles, CA
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