GREENLEAF TRUST

Perspectives

A Greenleaf Trust Newsletter

JULY 2021 VOLUME 30, ISSUE 7

William D. Johnston
Chairman, Greenleaf Trust

The Doors are Open 4

2021 Mid-Year Market Review 5

Treating Children Equally – Hidden Inequities 8

Asset Location, Location, Location! 12

Partnering for Success – Fiduciary Role 13

Lesson Learned: Be Prepared 16

Economic Commentary

It is now clear that at the current daily average of vaccinations against COVID-19 in the United States, the country will not meet the 70% threshold until early August. The July goal was ambitious and assumed that the early two million per day vaccination rate would hold. The evidence is clear that it did not, and neither did the percent of initially vaccinated who returned for their second dose to become fully vaccinated. Our current seven-day average is holding steady at one million new doses, and when aggregated with the slightly over two hundred million fully vaccinated, it should push us to two hundred thirty five million, or seventy percent, by the first week in August. The silver lining in the demographic data is that those in our country most likely to have aggressive health issues when infected are more likely to have been vaccinated. This is good news for our healthcare system as well as for the future fatality rate of those contracting the disease. While the Delta variant is being widely talked about, the other silver lining is that both of the primary vaccines in use have shown great efficacy against the latest and apparently more infectious variant.

For the past sixteen months, we have argued that the economy could not get to recovery without COVID-19 being in remission. Data reveals that both of those important things are happening, which is really great news. Michigan remains in the top decile of states whose populations are fully vaccinated (56.3%), and particularly effective in those communities who are typically underserved in the health care system.

The New York Federal Reserve's Weekly Economic Indicator (WEI) which measures production, consumption and labor data, retreated from its third week in May high of +11.43 and now measures +9.96. Recall that this measure is comparing economic activity (GDP) in real time vs. activity one year ago. Comparing the third week of June 2021 WEI data with the same period in 2020 suggests that our current run rate of GDP growth is +6.5%, further signaling that the recovery is not only well under way but is organically sustainable, which may put further pressure on the Federal Reserve and Treasury Department to adjust their paths in the forward cycles. Unlike other global central banks, the United States Federal Reserve has a dual mandate focused on stimulating employment while also containing inflation. If we look through that dual mandate lens, we can see the challenge for the Fed.

Commentary, continued

U-3 Unemployment is currently at 5.8%, with growing participation rates and decreasing continuing as well as initial claims. Though this is solid progress it is a full two percent from where we were prior to the pandemic, and the Fed has signaled its continued policy of accommodation (maintaining very low interest rates) to further stimulate consumption, production and employment. They are doing so, though, in the face of increasing inflationary headwinds. The Federal Reserve's tool kit is limited to a variety of interest rate levers. Some are subtle and others more robust, but their current statements and meeting notes affirm that their eye is more focused on the economy rather than inflation. My sense is that this administration and Federal Reserve leadership are more in sync than not. More about inflation in a bit.

The Treasury Department has everything to do with banking, which is the pathway of stimulus lending. They can, with congressional authorization, expand lending programs and define rules surrounding access and repayment as well as forgiveness of debt. The SBA payroll protection plans were examples of stimulus that aided employment and got money to consumers. Combined with the IRS, who the Treasury Department directed to send payments to taxpayers (with authorization from Congress), our economy began traveling the road of sustainability and then growth in the depths of the pandemic-created recession. Of course, overlaying all of these programmatic opportunities to assist the economy in times of great stress is the political dogma and will of the elected practitioners, mainly Congress and the administration.

"Economic history illustrates that elected representatives increase their concern about inflation if their party is not in power, and conversely demonstrate less concern if they hold the keys to the kingdom."

Economic history illustrates that elected representatives increase their concern about inflation if their party is not in power, and conversely demonstrate less concern if they hold the keys to the kingdom. The Treasury Department and IRS can offer assistance to economic growth, but only with the authorization from Congress. The Federal Reserve on the other hand is mandated to serve its mission theoretically free from political will or dogma. Thus far, the Fed Chairman has signaled that there needs to be a duration of time to smooth the current data with respect to commodities and prices. His reasoning, augmented by the meeting notes and comments of other Fed Board Governors, is that the deep recession created by the pandemic and augmented by supply chain disruption has created false price/demand signals. Further, Chairman Powell has reiterated the desire to keep rates low for the next six to eight quarters, allowing pricing equilibrium of commodities to reflect actual supply and demand dynamics. Tightening rates now would endanger economic output, business capital investment, and continued employment growth according to Fed meeting note summaries. Actions always speak louder than words, but in this case we have Federal Reserve leadership laser focused on economic and employment growth backed up by both their words and deeds.

Both political parties know that Americans place economic prosperity at the top of their preferences. The common question in most election cycles is "are

you better off than you were two or four years ago?" Economic recovery from the pandemic-created recession is on the Democrats watch, as is COVID-19 remission. The two are inextricably linked, and both parties know it. Infrastructure spending is again a top voter concern and each party needs and wants to control the narrative. The problem, as both parties are discovering, is of whom and what is their political base comprised. The administration has rolled out their proposed multi-trillion dollar infrastructure plan, and as expected it was met with significant Republican opposition. The Democrats have 476 days remaining of guaranteed legislative majority power. Republicans look at the same time period as an opportunity to regain legislative strength in either the House or Senate or perhaps both, and thus there is a stalemate with respect to a bi-partisan infrastructure bill. Continued economic recovery and COVID-19 remission diminishes Republican legislature's opportunities to gain seats in the House; however, Democrats know that the redistricting that occurred due to the last census hugely benefits Republicans.

President Biden introduced a proposed infrastructure plan that included the platform specifics that he ran and was elected upon, which included elements that he knew were championed by a portion of his political base. He also knew that the breadth and specific focus of the proposal would never be endorsed or approved by the Republican leadership. The rollout was important because it provided the platform for bi-partisan discussions, which have now led to a deal that many in both parties don't like. When the president was a young senator he could tell a legislative opportunity was near when neither party liked the deal. A part of the president's political soul is bi-partisanship, and he views infrastructure as the best possible opportunity to achieve a significant bi-partisan political victory. His messaging isn't subtle and the Republican leadership is not going to give him this victory without witnessing him abandon a part of his political base focused on the "Green New Deal." Republican leadership assumes the following:

1. The president doesn't have enough political capital to force a single party passage of his initially proposed infrastructure deal even though he has technical majorities in both the House and Senate.
2. Midterm elections will be close and are only 476 days away. The president's approval and therefore his party's approval will hinge on economic recovery, employment and COVID-19 remission.
3. A bi-partisan smaller infrastructure plan proposed by the president and passed by Congress doesn't hurt Republicans, but may cause some erosion of the president's base within his own party.

Deals like this take a long time and each day that passes also erodes political capital. My sense is that the infrastructure plan currently endorsed by the administration and leadership in Congress will pass, but that not much political capital will be won or lost by either side.

"A part of the President's political soul is bi-partisanship, and he views infrastructure as the best possible opportunity to achieve a significant bi-partisan political victory."

Michael F. Odar, CFA®
President

The Doors are Open

As of June 22, 2021, the state of Michigan has been opened to full capacity! In addition, the Michigan Department of Health and Human Services (MDHHS) and the Michigan Occupational Safety and Health Administration (MIOSHA) have also recently rescinded their COVID-19 Emergency Rules. As a result, Greenleaf Trust will be moving to Phase II of our Back to the Office Plan starting July 6. That means our doors are fully open to clients and teammates.

This is exciting news for all of us! Greenleafians, as we refer to ourselves, are the heart of our business and the foundation for our success. We derive our strength from each other and our communities. We value the continuous improvement of our work environment to create a close-knit, team-oriented culture, while working together for the good of our clients and the organization. It's time to celebrate and unite behind our core pillars of business and workplace culture that have driven us to 23 years of terrific success. COVID-19 was what happened to us, remote work was an outcome of what happened to us. We were great at that, but now is the beginning of the return to our cultural core.

"...starting July 6... our doors are fully open to clients and teammates."

Over the last 15 months, we made sure our teammates stayed safe and were well taken care of through our Greenleaf Cares Program. This initiative allowed all employees to participate in financial support or seek reimbursement for the things that were important and necessary for them during the difficult times. Funds could be used for increased expenses for childcare, education, and for technology needs due to work-from-home arrangements caused by the COVID-19 pandemic. Through Greenleaf Cares, we were able to provide, on average, about $1,000 per family in support to teammates and had 74% of them participate in the program. Most (56%) of that support went to helping them with extra family care expenses like increased costs for day care and education. The other 44% went to helping them with extra technology expenses such as internet upgrades and the proper equipment needed to work remotely. Through our regular Wellness Program, we also reimbursed teammates for housecleaning, subscriptions to grocery delivery services, and workout apps.

Our culture has expanded as well. We hired many new teammates during COVID-19, many that we have never met in person, and many that have yet to experience our culture in its finest form. These new team members represent about 15% of our current team. Needless to say, we are planning a time to celebrate them all in person soon.

We have achieved amazing things while apart over the past 15 months and our Business as Unusual mantra has served us well over that time frame. It will be exciting to see how much stronger we will all be when back in the office together again under a Business as Usual mantra!

2021 Mid-Year Market Review

Nicholas A. Juhle, CFA®
Senior Vice President
Director of Research

In January, Chairman Bill Johnston and I delivered a 2021 outlook seminar via live stream from a studio in Grand Rapids. Six months later, the world is a different place as an increasingly vaccinated population rediscovers a sense of normalcy. It is too early to call this a post-Covid era, but the narrative is now less about daily case counts and more about sustained economic growth. Below, we offer our thoughts on the current state of the economy and markets and perspective on what the rest of the year may hold.

BACK TO BUSINESS (CYCLE)

As we move into the second half of 2021, the ongoing vaccine campaign is suppressing the virus. New case confirmations and related deaths have both declined to levels not seen since the early days of the pandemic. Risks remain (variants, etc.), but as society returns to normalcy, we return to our traditional business cycle framework.

The economy is now one year into a new expansion, which began in July 2020 by our estimation. Interest rates are low, the labor market is strengthening, and consumer sentiment is significantly improved. We expect accommodative policy measures will support the recovery. We are monitoring risks such as high asset valuations and inflation metrics that could necessitate a change in policy. Inflation metrics are likely to rise in coming months due to easy 2020 comparisons and amid supply chain disruptions and heightened demand. We believe the increase will be transitory and expect the Fed to prioritize full employment as long as possible. As a result, we view the risks of a near-term recession as low.

> "The economy is now one year into a new expansion, which began in July 2020 by our estimation."

HELP WANTED!

The pandemic wiped out nearly 22 million American jobs in a matter of weeks, causing unemployment to spike to 14.7% in April of last year. Entering 2021, the labor market had regained about 12 million of those jobs with unemployment recovered to 6.8%. Another three million jobs were created year-to-date and unemployment has improved another percentage point to 5.8% – a pandemic-era low.

While the ongoing vaccine campaign and easing business restrictions offer labor market tailwinds, it appears that some combination of skill gaps, childcare obligations, lingering virus concerns, and enhanced unemployment benefits are limiting a return to work. We expect these dynamics to take center stage in the second half of 2021 as schools reopen, expanded benefits expire, and virus concerns ease. The stage is set for a continued labor market recovery.

2021 Mid-Year Market Review, continued

CONSUMER SPENDING

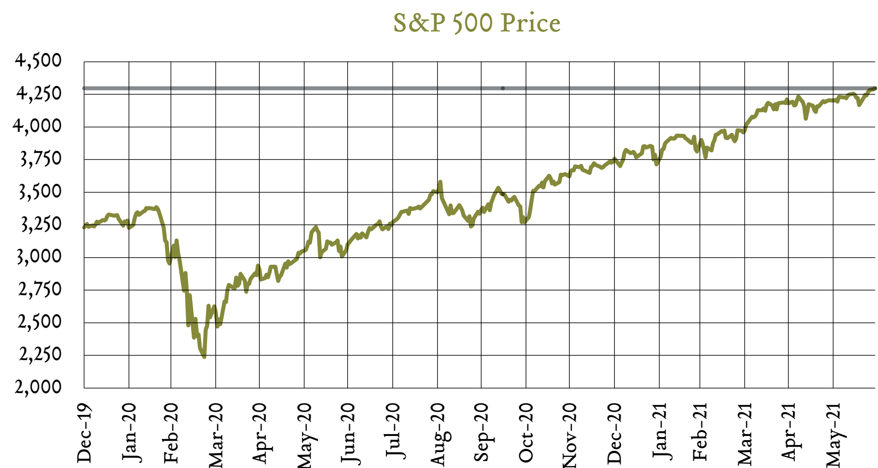
In April 2020, real retail sales declined more than 20% in what was arguably the worst month (economically) during the pandemic. On an absolute basis, spending declined to levels not seen since 2012 but rebounded to fresh highs by June. Savings rates that initially soared amid boundless uncertainty, fiscal stimulus, and a lack of spending opportunities, fueled record levels of retail spending into year-end. In 2021, business reopenings, increased hiring, and additional stimulus checks have supported improvements in consumer confidence and continued robust levels of spending.

Looking forward, we would expect continued strong household spending for the remainder of the year. Consumers may begin to shift spending towards entertainment and travel as pandemic fears dissipate while elevated savings supported by fiscal stimulus should continue to underpin demand.

US STOCKS CHARTING NEW TERRITORY

> "After plummeting 35% in March 2020, domestic stocks have marched steadily higher with total returns exceeding 90% from the bottom."

After plummeting 35% in March 2020, domestic stocks have marched steadily higher with total returns exceeding 90% from the bottom. It only took six months for the S&P 500 to recapture its pre-pandemic high and with a year-to-date return of nearly 15%, the index now stands more than 26% higher than it did in February of 2020.



There are a number of reasons why stocks have performed so well, not the least of which has been improving earnings growth expectations. In 2020, investors wondered how many years it might take for the S&P 500 to recapture peak earnings levels notched in 2019. As it happens, 2021 is on course to do just that. Starting the year, consensus expectations for 2021 earnings growth were about 23% on an easy compare from 2020. Six months later and analysts have raised expectations to earnings growth of 35%. This is a common early cycle phenomenon – stocks are growing into increasingly strong earnings expectations.

YIELDS RANGE BOUND

Entering 2021, optimism on the vaccine front led to risk-on sentiment in credit markets and rising interest rates. During the first quarter US ten year treasury yields climbed 83 basis points, to a high of 1.74%, and maintained a range of 1.43% to 1.70% in the three months that followed. As a result, bonds (as measured by the Barclays Intermediate Government/Credit Index) declined 1.9% in the first quarter and remain 1.1% lower year-to-date.

In June, the FOMC voted unanimously to maintain the federal funds rate at 0-0.25% and to make no changes to its quantitative easing program but updated forward projections to include two rate hikes in 2023. The economy has improved more quickly than the Fed was expecting and projections of economic growth have improved, including a 7.0% real growth projection for 2021. Chair Powell highlighted the Fed's expectation that recent drivers of inflation will be temporary as factors that have been suppressing supply abate in the coming months. In the second half of the year, we expect 'tapering' to be a significant theme. Chair Powell characterized June as the 'talking about talking about' meeting and pledged additional communication and advanced notice before announcing a plan for reducing asset purchases at a future meeting.

> "The economy has improved more quickly than the Fed was expecting and projections of economic growth have improved..."

LOOKING FORWARD – CAPITAL MARKET ASSUMPTIONS

As for the market experience going forward, we share our updated capital market assumptions below. These forecasts represent our expectations for average annualized returns for each asset class over the next ten years. Over the next decade, there will be years where returns exceed our expectations and years where returns trail our expectations. We believe short-term market-timing strategies are unlikely to improve long-term outcomes.

2021 Mid-Year Market Review, continued

Asset Class	10 Year Expected Return (June 2021)	10 Year Expected Risk (Standard Deviation)
US Large Cap	4.0%	14.0%
US Mid Cap	5.0%	16.0%
US Small Cap	6.0%	19.0%
Developed International Equities	5.5%	17.0%
Emerging International Equities	7.5%	22.0%
Core Fixed Income	1.8%	4.5%
Non-Core Fixed Income	3.8%	10.0%
Diversified Alternatives	3.3%	7.5%
Cash	1.5%	0.5%

Source: Greenleaf Trust, as of 6/30/2021

"We believe short-term market-timing strategies are unlikely to improve long-term outcomes."

We continue to recommend most of our clients hold a full weight to global equities in accordance with their individualized risk profile and we remain marginally more constructive on international equities. Concurrently, we are less constructive on the outlook in fixed income markets and believe a modest underweight in favor of an allocation to diversifying strategies (alternative assets) remains prudent.

Despite an ever-changing landscape, our disciplined approach and long-term orientation serve us well as we endeavor to create comprehensive investment solutions that help our clients reach their financial goals. Investment decisions are made in alignment with our documented investment philosophy and always with the intention of serving our clients' best interests. On behalf of the entire team, thank you for allowing us to serve on your behalf and good luck in the second half of the year.

George F. Bearup, J.D.
Senior Legal Trust Advisor

Treating Children Equally – Hidden Inequities

Parents often treat their children the same when it comes to distributions of their estate in order to avoid conflict or claims of undue influence. While well intentioned, sometimes parents overlook the fact that distributing their estate equally among their children can still cause their children to feel that they were treated neither equally nor fairly.

For example a couple indicates that they had decided to leave their wealth equally to their three children on their deaths. One of the reasons behind this decision is that their children do not always see 'eye-to-eye.' Actually, they feel that their children get along fine; rather, it is their son-in-law and daughters-in-law who are perceived to be meddlesome and disruptive, periodically creating stress in their children's relationships. Consequently, the parents believe that by distributing their estate to their three children

in share of equal value will somehow avoid the conflict that they fear might otherwise arise on their deaths.

The parents think that their estate plan avoids strife or resentments that may arise after their deaths, and have eliminated any threat of probate litigation, merely by giving equal inheritances to their three children. However, with an equal division of their estate on their deaths, their children may still never actually be treated equally.

While the inheritances that the children will ultimately receive under their parents' trust are described as to be distributed to our children in separate shares of equal value, overlooked in that very simple division is the more complex issue of who has control over the trust and the trust's administration and assets prior to their distribution to the children. Equality is subjective and means something different to each child, especially children who are emotional and grieving the loss of their surviving parent.

Consider the following the possible inequality in the administration of a trust that directs that shares of equal value of trust assets be distributed to the decedent's surviving children:

i) Naming One Child as Successor Trustee: If parents name their oldest son as the successor trustee of their trust, that leaves him in complete control of all trust assets prior to their ultimate distribution. That role as successor trustee gives to that son control over what bills to pay, what assets should be included in the trust, who to hire to appraise hard-to-value assets, and who to hire as the trust's attorney and accountant. Only the one son acting as the successor trustee will have access to information with regard to the trust assets, debts, tax liabilities, and claims that the trustee may wish to pursue. Unequal access to information and unequal control of trust assets can easily create resentment among the other children who are beneficiaries of the trust.

ii) Trustee's Fee: Since there is much work and responsibility involved with serving as a success trustee, the son might also decide to take a fiduciary fee, which he is entitled to under Michigan law. Taking a trustee fee, to the exclusion of one's siblings, could easily cause a deterioration of the children's relationships, leading to the perception that the one son who is named as successor trustee and paid a trustee's fee will 'get more' than the other two children, which is factually correct, while the other children ignore that their brother had to work for that fee--they will just remember that he 'got more than I did.'

iii) Trustee Burdens: Being named as successor trustee may also work to that designated child's disadvantage. If he or she feels guilty, they may

"...sometimes parents overlook the fact that distributing their estate equally among their children can still cause their children to feel that they were treated neither equally nor fairly."

Treating Children Equally – Hidden Inequities, continued

refuse to take a trustee's fee in order to keep the amounts ultimately received by each of the children the same. Yet that same 'martyr-like' decision can easily cause the child who acts as successor trustee resentment that he or she is treated unequally, because they are 'working for free' on behalf of their siblings. Emotional and mental challenges also go along with the trust's administration could easily cause the child to take time away from running their own business, or not spend time with their family to grieve the loss of parents, while their siblings are free to get on with their lives without any responsibility for administering the trust and all the decisions that go along with that administration.

iv) Trustee Liability: There can also be an unequal financial burden placed on one child who serves as successor trustee in light of the personal liability that successor trustee may have if there is later an assertion that federal estate taxes will be due, but all of the trust assets have been distributed. If there are unpaid federal estate taxes the IRS can collect the unpaid taxes, plus possible interest and late-payment penalties, directly from the successor trustee. That exposure to possible liability to the IRS can also create resentment and a feeling that all the children were not treated equally.

> "Only the one [child] acting as the successor trustee will have access to information with regard to the trust assets, debts, tax liabilities, and claims that the trustee may wish to pursue."

v) Specific Bequests: Family unit inequality can also result when the grandparents leave a specific dollar amount, e.g. $10,000, to each of their grandchildren from the trust. While that dollar amount bequest looks and sounds fair and equal among the grandchildren, it will not be perceived that way if one child has produced four grandchildren, one child has produced one grandchild, and a third child has produced no children of their own. Family units, i.e. the surviving children, tend to 'keep score' and a trust provision that leaves an equal cash amount to each grandchild can easily lead to the perception that the children are not treated equally.

vi) Distribution of Tangible Personal Property: Most wills and trusts attempt to avoid identifying and dividing smaller items of property by simply stating that the decedent's tangible personal property is to be divided equally among my children as they may agree. Unequal benefits will inevitably occur in the division of tangible personal property, such as artwork, collectibles, and jewelry. It is probable that the children will end up with different items with different financial and sentimental values. Fighting over the parents' belongings is often the subject of virulent disputes among the children, even when the value of those emotion-laden items is negligible.

Inequalities can also arise even when the parents' estate plan directs that

each child is to receive the same amount. For example, assume that the deceased parent owns an interest in a closely held family business. The parents' one son works in the family business.

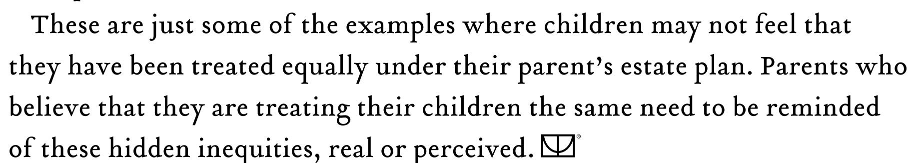
Control: Upon the parent's' death, the son will control the day-to-day affairs of that family business, to the exclusion of his siblings.

Income: The son who runs the business will also continue to receive his salary. If the son's responsibilities increase on the death of his parent, he might actually increase his salary, commensurate with his increased responsibilities at the business. The son's siblings may see their brother's actions as taking advantage of their parent's death, and indirectly taking advantage of them, even though all are supposed to share equally in the deceased parent's estate.

Trust Administration: Much of the income that may be required to administer the trust estate and pay federal estate taxes may be dependent upon the business that the deceased parent owned at the time of death. That needed income to pay bills, hire professionals, and pay taxes may be paid from the business, but only if that income is available. The business may be controlled by the son who works in the family business, and the decisions that he makes may result in there not being sufficient business income to help pay estate administration expenses. If there is not enough income, the trustee may have to sell estate assets to raise cash. The other children could resent some of the business decisions that their brother made that, in their view, reduced the amount of income the business could generate and make available to the trust estate.

Buy-Sell Agreements: Another way in which inequities occur is when the parent and one child have entered into buy-sell agreements with regard to the business asset. While distributions from the deceased parent's trust are directed to be in equal amounts, a pre-existing buy-sell agreement may give a child who is active in the business to purchase his or her deceased parent's business interest, from their trust, either with valuation discounts, or perhaps at book value as opposed to fair market value, which is the standard used to value the deceased parent's business interest for estate tax valuation purposes. Either with valuation discounts, or book value purchase options, the one child who is involved in the business will be viewed by his or her siblings as taking advantage of them by purchasing their parent's business interest at less than its fair value.

These are just some of the examples where children may not feel that they have been treated equally under their parent's estate plan. Parents who believe that they are treating their children the same need to be reminded of these hidden inequities, real or perceived.



"Unequal benefits will inevitably occur in the division of tangible personal property, such as artwork, collectibles, and jewelry."

Suzanne Stepan, CFA®, CFP®
Vice President
Senior Wealth Management Advisor

Asset Location, Location, Location!

Often in real estate we hear the mantra: location, location, location. The repeated statement suggests value varies based on the location in which the real estate resides. A similar phenomenon occurs in investing and is referred to as Asset Location. The placement or location of your investments can ultimately provide tax-efficiency and enhanced after-tax returns while preserving a stated level of risk.

There are three main types of accounts to locate or "house" investments:

TAXABLE: an investment account where taxes will be owed each year on interest, dividends and realized capital gains (e.g. Individual, Joint, Trust, etc.).

TAX-DEFERRED: an investment account where the investor typically invests pre-tax dollars and investment earnings from interest, dividends and capital gains grow tax-free generally until retirement at age 59 ½ or older when upon withdrawal, taxes are owed (e.g. Traditional IRA, 401(k), 403(b), etc.).

TAX-EXEMPT: an investment account where the owner typically invests after-tax dollars and investment earnings from interest, dividends and capital gains grow tax-free and are withdrawn tax-free generally after age 59 ½ (e.g. Roth IRA, Roth 401(k), etc.).

Utilizing the investment strategy of asset location with varying tax-profiled accounts can maximize after-tax returns. The goal is to "house" or locate the least tax-efficient assets in the accounts that have the most favorable taxation and "house" or locate the most tax-efficient assets in the accounts that are taxed with the least favorable outcomes. This is done while maintaining the desired asset allocation and risk tolerance in aggregate.

"The placement or location of your investments can ultimately provide tax-efficiency and enhanced after-tax returns…"

HOW DOES IT WORK?

First, in order to create a sound financial plan, a client's goals and objectives must be established. An investment objective/risk tolerance is then determined to achieve the goals. The investment objective is utilized by the investment manager in determining the optimal investment strategy and an appropriate asset allocation to achieve the client's overarching goals. Further, based on the types of accounts available to "house" the investments, asset location may be utilized. Each asset's tax characteristics are analyzed and "housed" in the account to best optimize the after-tax performance of the consolidated portfolio. This strategy maintains the asset allocation in aggregate, but not on an individual account basis.

BY WAY OF ILLUSTRATION:

Just as baseball is a team sport, your assets are viewed as a team working

together. The coach's decisions on where to place each player on the field can affect the outcome of the game. Asset location works similarly. Certain asset classes benefit more than others based on their placement and which type of account they are "housed." Based on each asset class' characteristics, enhanced after-tax returns can be achieved in tax-efficient accounts. While all the asset classes work together in a diversified portfolio, placement is important for enhanced wealth creation. As different baseball players have certain strengths and weaknesses based on where they are placed on the field, the type of account chosen for your investment can make a difference in the amount of after-tax earnings. This is due to investments being subject to different tax rules and accounts having different tax treatments.

Much like analyzing the talent on the baseball field, here at Greenleaf Trust, we evaluate each of the "players" in our investment portfolio to determine their correct placement in the most favorable tax "house" to achieve each of our clients' goals and objectives.

"... your assets are viewed as a team working together. The coach's decisions on where to place each player on the field can affect the outcome of the game."

Partnering for Success – Fiduciary Role

Christina E. Sharp
Senior Relationship Specialist

Offering a high-quality qualified retirement plan, especially in a tight labor market, helps attract and retain talent. Along with offering employees a retirement benefit, employers hold an important fiduciary role to keep the plan in good order through plan administration and following regulatory compliance. Ignoring fiduciary responsibilities may lead to penalties from the Internal Revenue Service (IRS) or Department of Labor (DOL). Although an employer may never completely absolve themselves of fiduciary responsibilities, Greenleaf Trust partners with clients to assist with plan administration and fulfilling their fiduciary responsibilities.

"... a high-quality qualified retirement plan, especially in a tight labor market, helps attract and retain talent."

INVESTMENT REVIEW

As a fiduciary, the employer's duty to act prudently is evidenced by having processes in place for making fiduciary decisions in relation to mutual funds offered in the plan and the documentation of those decisions. The actual performance of the funds is less imperative than ensuring that there is a process in place for the addition and removal of the funds. Greenleaf Trust assists the Plan Sponsors with their fiduciary review by providing the annual Mutual Fund Due Diligence Report, which ensures written documentation with regard to the selection and ongoing analysis of mutual funds recommended for client use. Additionally, Greenleaf Trust provides the Investment Policy

Partnering for Success – Fiduciary Role, continued

Statement, documenting the plan's approved designated investment alternatives, and the qualified designated investment alternative. Other documentation such as employer retirement plan committee meeting minutes should be kept to document employer's evaluation of mutual fund investments and their final offerings decision to demonstrate the employer is compliance oriented and aware of fiduciary duties.

INVESTMENT SELECTION

In some cases, Greenleaf Trust serves as a 3(21) Directed fiduciary as defined in Section 3(21) of ERISA, with the final investment selection directed by the Plan Sponsor. If the Plan Sponsor desires Greenleaf Trust to be the final decision maker on investment decisions, they may elect to have Greenleaf Trust serve in the capacity as a 3(38) Discretionary fiduciary, investment manager. Fiduciaries have the duty to act prudently and in the interest of the plan participants and their beneficiaries at all times. A fiduciary may not have the expertise in a specific area such as investment selection, and thus may hire a fiduciary for support with fulfilling its fiduciary role.

When Greenleaf Trust is asked to serve in the capacity of investment manager holding the responsibility for determining the mutual fund investment offerings within the retirement plan, the Plan Sponsor no longer needs to evaluate, monitor and provide final investment direction decisions. The Plan Sponsor is responsible for reviewing Greenleaf Trust's process of due diligence analysis in selecting investments and receipt of the annual Mutual Fund Due Diligence Report.

> "With the technology available today, the DOL is consistent its position that salary deferrals contributions must be deposited to the plan as soon as possible..."

PLAN REVIEW

Greenleaf Trust Relationship Managers offer Plan Sponsors the opportunity to meet to review the overall retirement plan from a fiduciary and compliance perspective at least every 12 to 16 months. These reviews typically cover topics such as a high-level financial summary, investment review, employee participation, regulatory changes, and employer level system access along with report delivery.

PAYROLL ADMINISTRATION

The Plan Sponsor should monitor for accurate payroll submission per the employee's deferral election or automatic enrollment into the plan along with the deferral calculation per the definition of compensation. For example, the elected deferral should not be calculated including bonus compensation, if bonus compensation is excluded from the plan's definition of compensation. Greenleaf Trust supports client payroll administration by emailing eligibility, deferral changes, and automatic reports each Friday, when applicable. As part of payroll due diligence, the Plan Sponsor should compare all the participant elections

on Greenleaf Trust's website to the payroll file to ensure they match. If any discrepancies are identified and corrected promptly, the correction will be less costly to the employer and additional penalties will not be incurred.

Employers are responsible for timely submission of salary deferrals from an employee's paycheck. With the technology available today, the DOL is consistent in its position that salary deferrals contributions must be deposited to the plan as soon as possible following the date funds are withheld from pay. Greenleaf Trust sends an email within three days of the pay date to notify the employer to upload the payroll file and forward funding to us immediately to avoid potential IRS reported late payrolls, lost earnings expenses and penalties.

EDUCATION MEETINGS

Most defined contribution retirement plans operate under ERISA Section 404(c) relief as a participant-directed plan, which means the participants are making the investment decisions. With the liability relief ERISA 404(c) may offer from any loss participants incur from their investment direction, it is important as a fiduciary that you can demonstrate education meetings and/or individual consultations were offered on a continuous basis. Further, it is best practice to retain records of attendance, education materials provided and communications provided to employees on retirement plan education opportunities.

MISSING PARTICIPANTS

Although onerous at times, a plan fiduciary must make reasonable attempts to locate missing participants to ensure they receive required plan notices and a proper distribution of the account balance. The employer can search for the missing participant using electronic search tools, or contacting the participant's designated beneficiary. Care should be taken to ensure participant privacy and verification of the participant, if a better address is located. To assist Plan Sponsors in fulfilling their obligation, Greenleaf Trust periodically notifies employers of missing participants. Greenleaf Trust also provides scripting for employers to use, which directs the participant to contact Greenleaf Trust's Participant Support Call Center for address updates and verification.

PLAN DOCUMENT

The administration of a plan is governed by the plan document. As fiduciaries, employers must ensure the plan document is in good order. Greenleaf Trust offers an IRS-approved prototype plan document for most clients. Upon a plan design change, such as adding a provision, or a change in legislation, Greenleaf Trust will update the written plan document. Additionally, the IRS mandates all pre-approved plan documents be restated on a 6-year cycle; the Cycle 3 restatement period is effective August 1, 2020

> "The administration of a plan is governed by the plan document. As fiduciaries, employers must ensure the plan document is in good order."

Partnering for Success – Fiduciary Role, continued

to July 31, 2022. Greenleaf Trust is in the process of restating plan documents and incorporating the mandatory amendments for the Bipartisan Budget Act (BBA), in relation to the hardship provisions, and enacted CARES Act provisions.

PARTICIPANT REQUIRED NOTICES

By law, fiduciaries are required to provide disclosures of specific plan and investment information to participants. In many instances, Greenleaf Trust provides notices on behalf of the Plan Administrator such as the quarterly and annual Participant Fee Disclosures and Qualified Default Investment Alternative notice. Additionally, the design of the plan may require annual Safe Harbor Notices or an Automatic Enrollment notice. In 2020, final electronic disclosure regulations were passed for the distribution of required notices. The Greenleaf Trust website is being updated to house the required notices and the Summary Plan Description. Participants will receive an email alert that a required document has been posted to the website.

As always, Greenleaf Trust is here to assist. We appreciate your business and the trust that you place in us to work on your behalf.

Lesson Learned: Be Prepared

Carlene R. Korchak, CTFA
Vice President
Senior Trust Relationship Officer

What a year this has been! Life can be challenging enough without adding a pandemic to the mix. The sense of relief as life begins to return to 'normal' feels so good after such a long, unexpected time. Not only is this a good time to reflect on all we have to be grateful for, but I have found that difficult times often bring the opportunity to learn new things. If nothing else, the past year has taught many lessons about expecting the unexpected and being prepared for anything, especially when it comes to medical issues. After hearing some harrowing stories and helping with some difficult situations this past year, I chose to write this month about a document we should all have on hand, a Medical Power of Attorney.

Imagine this. Your spouse has a serious infection and needs to be seen by a doctor immediately. He is confused and delirious. You take him to the emergency room, but you wait hours in the parking lot before he can be seen. Then once he can be seen, you can't go in with him due to COVID protocols. The emotional stress of not being with a loved one who is seriously ill is bad enough, but what about the information the doctors need quickly to assess the situation? What about any important decisions that need to be made for treatment? If the patient is not coherent, finding the best possible treatment, as well as following the patient's wishes, may be at risk.

Even without long lines in the ER due to COVID, think about similar but different situations — you bring a lifetime partner, friend or other family member to the emergency room, or you are travelling out of town and need an emergency doctor. Who can help if the patient is not able to make his or her own decisions?

A legal document called a Durable Power of Attorney for Health Care, sometimes referred to as a Medical Power of Attorney, names the person, called a Patient Advocate, who you would like to act on your behalf if you are not able to make your own medical decisions. Under COVID protocols at many hospitals, one person could be allowed in the ER with a patient unable to make his or her own medical decisions, and that person must be named as Patient Advocate in the Medical Power of Attorney document.

With credit to George Bearup, Greenleaf Trust's Senior Trust Advisor, following are some points regarding the legal framework for this situation under Michigan law.

- Determination of a patient's capacity (which is different from competency) is a clinical determination, is specific to the treatment decision at hand, and is context-based. Practically speaking, this means a patient can have capacity to make some decisions, like determining who should act as his or her patient advocate, yet not possess sufficient capacity to make more complex decisions, like deciding for (or against) surgery. Making it even more challenging is that capacity can wax and wane. Patients are presumed to have capacity unless there is strong reason to believe that the patient lacks it. Assessments of capacity are instrumental to ensure that the patient receives the maximum benefit from treatments and also avoid the harms of medical treatments that are inconsistent with the patient's values and goals.
- The legal standard requires that the advocate make decisions on the basis of his or her knowledge of the patient's specific wishes, goals, values and preferences. If the patient's wishes or values are not known, advocates and healthcare professionals should only then make decisions in accordance with the patient's best interests.
- A Durable Power of Attorney for Healthcare is grounded in the principle of respect for the patient's autonomy. It is viewed as enhancing autonomy by allowing a person to communicate in advance goals, values and preferences for future moments when the person may lack decision-making capacity.

The bottom line is two-pronged: choosing who will act as your patient advocate is a very important decision; and your wishes, goals and values should be well thought out and stated clearly in your document in advance of an emergency.

"… a Medical Power of Attorney, names the person, called a Patient Advocate, who you would like to act on your behalf if you are not able to make your own medical decisions"

Who should you choose as your Patient Advocate? First and foremost, consider someone who shares your values, someone you trust to be a good

Lesson Learned: Be Prepared, continued

decision-maker on your behalf and who can make “tough decisions.” Most choose a spouse or other family member. Does that make sense in your situation? Would a trusted friend be more objective? Is there someone who has been helping you with medical decisions already? It makes sense to name more than one person in succeeding order, in case one person is not willing or able to serve in the role. It also makes sense to ask in advance if someone is willing to serve as your Patient Advocate, and to talk through your desires with him or her.

Here is some food for thought as you work with your attorney to design or update your Medical Power of Attorney.

- Consider including a statement of philosophy regarding your overall wishes, goals and values. Briefly explain your thoughts on the benefits of treatment versus medical burdens and risks, suffering, and/or improvement of your prognosis. Is your goal to prolong your life to some future time when a cure might be found, to limit your level of pain and suffering, or some option in between? Based on recent experience, you might consider some of the rapidly-developed treatments that were found for COVID-19 as you analyze your thoughts on this statement.
- Consider the need for interpretation of your document by others. In my experience, this document can be a great comfort to your loved one (think adult child) who could be the person you have chosen to be your advocate and might be making an agonizing decision about “letting go” of a beloved parent. While you may include specific preferences for interventions or for forgoing interventions, including a brief description of your thoughts and values regarding those preferences can be very helpful to reassure your advocate, especially if unforeseen circumstances or treatments arise.
- In your current document, perhaps written years ago, have you expressed a desire not to be put on a ventilator to prolong your life? Has your opinion changed since our recent experience with the treatment for COVID-19? From a broader and more important perspective, have you reviewed your existing document recently to determine if it still expresses your wishes and directions, especially as medical conditions and treatments progress and evolve? Have your relationships changed over time, and should you reconsider who you have named as Patient Advocate(s)? Like every document in your estate plan, this is one that should not be forgotten once it is initially signed, and it should be periodically reviewed.

“… your wishes, goals and values should be well thought out and stated clearly in your document in advance of an emergency.”

Thanks again to George Bearup, the following is a list of some provisions that you may want to consider adding to your document. Not only is George a retired estate planning attorney, he also serves on a hospital’s bioethics resource committee which provides some very practical experience.

- Can your advocate share medical and other information with third parties or other family members?

- Can your advocate discharge your treating physician(s) to assure your physical, mental or emotional well-being?
- Can your advocate demand your transfer to another medical facility?
- Should your advocate be able to withdraw, modify or change consent to procedures that no longer are of benefit, or where the benefits of such procedures, tests or treatments are out-weighed by the burdens they impose?
- Should your advocate be able to bring a lawsuit to enforce your right of privacy?
- Can your advocate preclude family and friends from visiting or gaining access to you?
- Can your advocate keep you in your own home as long it does not jeopardize your potential for recovery or impose an undue burden on your family members?
- Can your advocate sign a release or indemnity to medical/hospital personnel who act in reliance on the advocate's direction? For example, this might include releases with regard to refusal of treatment or leaving the hospital against medical advice.
- Can your advocate arrange for pain-relieving drugs of any kind or other surgical or medical procedures that are calculated to relieve pain, including unconventional pain-relief therapies?
- Should your advocate be able to make anatomical gifts?
- In very challenging situations, should your advocate be given the specific right to seek a judgment from the court to interpret the validity of the Durable Power of Attorney for Healthcare, including the authority to seek an injunction to compel compliance with your advocate's decisions?

Last, and certainly as important as all of the information above, do you know where your Medical Power of Attorney document is located? It is common for hospitals to ask for a copy when doing pre-surgical check-in, but what about when you have a medical emergency? Your Patient Advocate(s) should have a copy and you should keep a copy handy. One safe and secure way to keep it with you is to save it to your vault in your mywealth by Greenleaf Trust online client portal which can be accessed from your phone. I know a couple who keeps copies in a folder on their fridge that can be easily grabbed on the way out the door. They are definitely planners who are prepared!

No one I know likes thinking about these things, but in the year we have just experienced, being prepared for medical emergencies has brought some peace of mind to clients and their families, and great stress and added anxiety to some who were not as prepared. Unfortunately, ignoring the challenge does not make it go away. Please reach out to your client centric team if we can help you talk through any questions or concerns you may have on this topic. We are here to serve.

"… in the year we have just experienced, being prepared for medical emergencies has brought some peace of mind to clients and their families…"

Stock Market Pulse

Index	6/30/21	Total Return Since 12/31/2020
S&P 1500	984.60	15.60%
Dow Jones Industrials	34,502.51	13.79%
NASDAQ	14,503.95	12.92%
S&P 500	4,297.50	15.24%
S&P 400	2,696.12	17.59%
S&P 600	1,374.84	23.55%
NYSE Composite	16,555.35	15.20%
Dow Jones Utilities	876.07	2.99%
Barclays Aggregate Bond	2,353.64	-1.60%

P/E Multiples	6/30/21
S&P 1500	30.1x
Dow Jones Industrials	25.8x
NASDAQ	100.9x
S&P 500	30.3x
S&P 400	27.8x
S&P 600	29.1x

Key Rates

Fed Funds Rate	0.00% to 0.25%
Tbill 90 Days	0.03%
T Bond 30 Yr	2.09%
Prime Rate	3.25%

Current Valuations

Index	Aggregate	P/E	Div. Yield
S&P 1500	984.60	30.1x	1.34%
S&P 500	4,297.50	30.3x	1.35%
Dow Jones Industrials	34,502.51	25.8x	1.75%
Dow Jones Utilities	876.07	18.5x	3.54%

Spread Between 30 Year Government Yields and Market Dividend Yields: 0.75%

GREENLEAF TRUST® e-mail: trust@greenleaftrust.com greenleaftrust.com

KALAMAZOO OFFICE:
211 South Rose Street
Kalamazoo, MI 49007
office: 269.388.9800
toll free: 800.416.4555

GRAND RAPIDS OFFICE:
25 Ottawa Avenue SW, Ste 110
Grand Rapids, MI 49503
office: 616.888.3210

BAY HARBOR OFFICE:
4000 Main Street, Ste 150
Bay Harbor, MI 49770
office: 231.439.5016

GREENLEAF TRUST DELAWARE:
4001 Kennett Pike, Ste 226
Greenville, DE 19807
office: 302.317.2163

TRAVERSE CITY OFFICE:
160 E State St., Suite 200
Traverse City, MI 49684
office: 231.922.1428

BIRMINGHAM OFFICE:
34977 Woodward Ave., Ste 200
Birmingham, MI 48009
office: 248.530.6202

MIDLAND OFFICE
117 East Main Street
Midland, Michigan 48640
office: (989) 495-2033

This newsletter is prepared by Greenleaf Trust and is intended as general information. The contents of this newsletter should not be acted upon without seeking professional advice. Before applying information in this newsletter to your own personal or business situation, please contact Greenleaf Trust. We will be happy to assist you.

Greenleaf Trust Delaware, a Delaware limited purpose trust company, is regulated by the Office of the Delaware State Bank Commissioner. Greenleaf Trust Delaware is wholly owned by Greenleaf Financial Holding Company, a Delaware corporation. Greenleaf Financial Holding Company is also the sole owner of Greenleaf Trust, a Michigan non-depository trust bank regulated by the Michigan Department of Insurance and Financial Services. Both Greenleaf Trust and Greenleaf Trust Delaware provide various fiduciary and non-fiduciary services, including trustee, custodial, agency, investment management and other non-depository services. Greenleaf Trust and Greenleaf Trust Delaware offer personal trust, retirement plan and family office services to families and entities.

Greenleaf Financial Holding Company and its subsidiaries do not provide legal, tax or accounting advice. Please consult your legal, tax or accounting advisors to determine how this information may apply to your own situation.