GREENLEAF TRUST

Perspectives

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Chairman, Greenleaf Trust

Economic Commentary

"Opening the economy" is the phrase that seems to be taking up much of the oxygen lately, so let's spend some time digging into exactly what that phrase means and how we might observe progress in the future growth of our economy. In essence, we want to put some data and facts into the equation to actually know and measure how we are doing. First, we need some perspective to understand the context of where we are currently with respect to employment and consumer activity.

Prior to February of 2020, I repeatedly offered that the consumer was employed, confident, receiving wage rate increases and was spending while continuing to save. Those statements were founded in economic data releases regularly followed by most economists. Our labor force in the United States, as measured by those working and those seeking work, was 164.6 million, and those unemployed were 3.2% of that workforce, numbering slightly less than 5.3 million, or approximately 1.3% of the estimated 331 million Americans.

As consumers, we were confident and expressing that confidence in two major monthly surveys by both the Conference Board and the University of Michigan consumer confidence survey. Both survey instruments recorded near all-time high levels. Our GDP was growing at a nominal rate of 3.7% and a real (inflation-adjusted) rate of 2.3%, which reflected not only a confident consumer, but a consumer that was spending. We were observing in real time the "Invisible Hand" economic theory of Adam Smith. This context of where we were is important in understanding the challenges involved in returning there.

Those that either wish for or propose a V-shaped recovery assume a quick return to employment and consumer confidence. On the other end of the spectrum are those that suggest a prolonged recovery much more similar to the recovery we experienced from 2008 through 2019, where we witnessed incremental growth in employment, consumer confidence and GDP growth.

To fully grasp the context of where we are today as we close out the month of May, we need a dose of real-time data. As of May 23, weekly new jobless claims grew by 2.1 million which, on a positive note, was down 13%

Commentary, continued

from the previous week, but still aggregated to a 14.9% unemployment rate and a U6 unemployment rate of 21.8%. Data points are a reflection of real people and families. A 14.9% unemployment rate means that 7.5% or 25 million people in our country are unemployed. Previous census data adjusted annually suggests that we have 126.2 million households in our country and thus it is probably not an overstatement to say that the 25 million currently unemployed Americans impact one out of every five households.

What gets these people back to work, what keeps them employed and what returns their confidence to spend and grow our economy? Additionally, how do we measure our progress to continue to fully understand the very best public policy decisions that will help accelerate employment rate growth?

"The answer to how our economic recovery is progressing will not be found on the nightly news or the reflections of politicians or political pundits, but rather in the data..."

The New York Federal Reserve Bank recently announced the creation of a real-time weekly economic index that they created using a set of ten proprietary indicators that focus on labor, production and consumer activity. The index developed is updated twice weekly on Tuesday and Thursday and is posted as a negative or positive value related to where we were at the same date one year ago. To demonstrate the velocity of change, one year ago the index read +3.06 meaning that the economy as measured by the respective indicators of labor, production and consumer behavior was ahead of the previous year (2018) by slightly over three percent. On February 29 the index was posted at +1.58% reflecting nearly two percent growth over the same period in 2019. On May 9th of 2020 the index indicated -10.17% then dropped to -11.09% on May 16th and most recently as of May 26th recorded a level of -10.6%. If both relevant and accurate, the current Weekly Economic Index (WEI) reports reflect that our current GDP annualized rate is approximately 14% below the rate of growth experienced in 2019.

The answer to how our economic recovery is progressing will not be found on the nightly news or the reflections of politicians or political pundits, but rather in the data that reflects how many people are employed, what is being produced and how consumers are behaving. When we see it in that context we gain a sharper lens, and thus a better and more accurate understanding of where we are and the progress we are making or lack thereof. Although it is an election year, we hope that those in charge of public policy will view it that way as well.

Demand for goods and services creates production, employment and consumption. Government cannot create demand, but it can develop public policy that is most immediately impactful in the soft spots of employment and consumption that will sustain consumers until demand production and employment are once again real, rather than supported. The ideological divide in our country is all encompassing and impacts all public policy inclusive of pandemic viruses. Twenty-five million Americans are currently unemployed because their employers did not have the business required to employ them. It is nonsensical to assume that if all restrictions were removed in every state that goods and services demand would immediately resurface and the unemployed will immediately return to work. In January of 2020, US auto sales were 16.9 million annualized. April 2020 sales reflected a drop to 8.2 million annualized. Consumers cannot buy automobiles without the resources to do so. It is estimated that eleven million of the 25 million unemployed held jobs in small businesses of fewer than 50 employees. A large portion of small businesses are owner equity financed. This was a significant problem in the first two rounds of SBA loans to small businesses. The Federal Reserve and legislators assumed that all small businesses had "banking" relationships beyond checking types of services. The reality was that many small businesses, employing millions throughout our country, have no lending relationships with banks and are self-financed by owner equity. It is these types of small businesses that are most vulnerable to permanent failure. If we want to restore hope to these businesses and generate employment for the millions employed by them, we need a more creative opportunity to support them than the current SBA programs.

Not too many months ago we registered a labor force in excess of 164 million people and an unemployment rate of 3.2%, with an increasing labor participation rate. The 5.3 million unemployed represented 1.5% of our population and only 4.3% of America's total households. To my eye, these statistics reveal that Americans, like almost every other person, desire to work and will if there is opportunity to do so. It is disappointing to hear the ideologues debate stimulus programs through the lens of scarcity rather than abundance, and with the assumption that if we provide stimulus payments direct to consumers we will make them lazy and unwilling to return to work. It is all the more disappointing when those asserting this ideology in Congress do so with lifetime incomes and benefits paid to them in taxes by the very people they assume to be lazy.

Chaos brings opportunity, and much will change. In the moment, most of us are unsettled by change and often by the velocity of change. Stability is comfortable—especially for those in charge and those with power—yet change occurs and none of us can control the velocity of change. Every day we see evidence of change created by the chaos we find ourselves in, and some of that change is good and will be very useful to us if we allow it to be.

"If we want to restore hope to these [small] businesses and generate employment for the millions employed by them we need a more creative opportunity to support them than the current SBA programs."

Commentary, continued

Better forecasting models of disease spread, better treatment protocols, better medications, vaccines and a greater focus on staying ahead of the curve rather than catching up can all result from this opportunity. Greater global investing supporting all of the previous will allow for us to be better prepared for the next pandemic. But that won't occur if we allow a disease to be politicized and suffer the consequences of doubting science and data. Who would have imagined that wearing or not wearing a mask to protect yourself from others or others from yourself would become a political party identification symbol.

There will be much more to learn that will help us grow economically, socially and educationally as a result of the change we find ourselves in. It will be dangerous to ignore the opportunities or limit our discovery due to ideology.

Returning to the Office Safely

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As the world begins to re-open and re-define what it looks like to return to some sense of "normal," there are many factors to consider. From a federal, state and local level, information is rampant and quickly changing to mitigate the spread of COVID-19. One thing has remained the same throughout, a focus on keeping people as safe as possible.

In March, like many, we created a COVID-19 Task Force. The Task Force monitors the changing landscape, guidance, and legal orders put in place and ensures we are creating the appropriate policies and procedures to keep our clients and team members safe. Consistent with the Stay Home, Stay Safe Order in March, we seamlessly transitioned the majority of our team to the safety of their homes to work virtually. We have embraced our work environments and learned to manage our new normal as we continue working diligently on your behalf. Now, as we near the end of May, there is hope for a transition of more team members back to the office.

Our COVID-19 Task Force, along with senior leadership, have implemented a COVID-19 Preparedness and Response Plan to guide our actions. With the state of Michigan, and many others, entering into a similar phase of re-engaging more of the workforce, we surveyed our team members as to their comfort with returning to the office to work. Understanding the diversity around each person's path in this journey — single, family, children, health concerns, status, other family members' job stability, impact from the disease, daycare/school issues — we want to understand and be respectful of the viewpoints and needs of our team members. Considering survey results, along with leadership needs of planning for re-entry based on who can and should return to the office, we created re-entry procedures that will provide safety, and accommodate the needs of our clients and team members while adhering to the guidance provided from a federal, state and local level.

We have procured necessary PPE (Personal Protective Equipment) for our team members, initiated health monitoring of those entering our offices, reviewed each office location for safety to include capacity planning, social distancing, traffic flow in the building and meeting etiquette. As team members re-enter the office they will be provided with education, training and reminders of health etiquette, office protocol, ways to minimize the spread of COVID-19, and the location of safety equipment and how to properly use it.

Our goal is to re-engage team members into the office in phases and to monitor the transition, as well as the evolving situation and protocol for any accommodations needed. We will relax or enhance our efforts as appropriate each week going forward. As we master the return of team members and feel comfortable with our team's safety, we will then look to re-engage our clients in the office. In the meantime, our meetings will continue to be often and virtual.

As always, our clients and teammates are our top priority. We will continue to monitor changes and update guidance to provide the safest environment for our clients and team members. We want each of you, and our team members to feel safe and comfortable and look forward to the day when we can all be together again.

"As team members re-enter the office they will be provided with education, training and reminders of health etiquette..."

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Crude Thoughts on Oil Investments

While certainly taking a backseat to the COVID-19 pandemic, oil markets have garnered their share of attention of late. Excess supply and lack of demand have driven prices down more than 60% year-to-date, at one point even turning negative. Recent volatility has caused many to ask about the level of energy exposure in their investment portfolios and whether oil price declines create a compelling buying opportunity. In this article, I offer my perspective on the oil market and how we think about oil in client portfolios. In addition, three of my colleagues (Ali Fahs, Lucas Mansberger and Chris Burns) offer perspective on their specific areas of focus in their own words. The consistent message is that oil specifically, and energy companies generally, are intentionally underrepresented in our clients' portfolios and while there may be short-term opportunities in the energy sector, we remain underwhelmed by longer-term prospects.

The volume of questions we receive on commodities like gold or oil seems to spike when they have done really well (should I jump on this bandwagon?) or really poorly (great time to buy?). Commodity prices can, and do, rise and fall, but it is important to remember that at the end of the day a barrel of oil or an ounce of gold is just a thing. These "things" have value, but they don't produce value, which means their long-term expected return is roughly commensurate with inflation. In the short-term, significant price movements (volatility) spark interest. The table below highlights why we have not held an explicit allocation to commodities generally, or oil specifically, in client portfolios in my time as director of research.

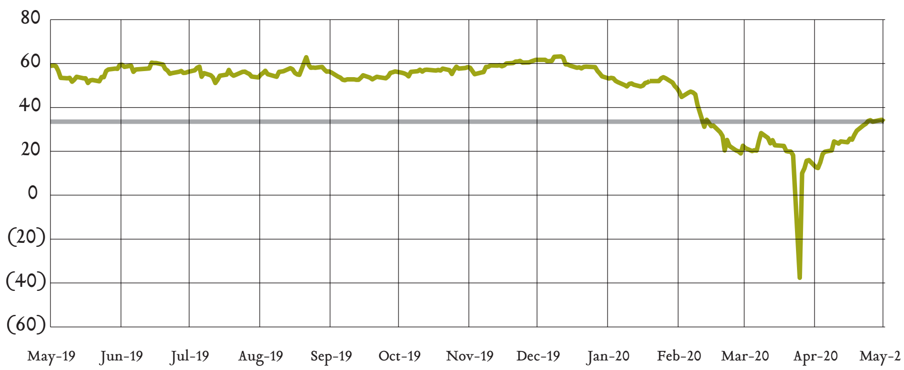
25 Years (1994-2019)			
	Annualized Return	Volatility	Growth of $1
Domestic Stocks	10.2%	18.1%	$11.37
Core Fixed Income	5.0%	3.6%	$3.39
Inflation	2.2%	1.0%	$1.72
Commodities	1.7%	18.6%	$1.53

Source: Bloomberg
Domestic Stocks = S&P 500; Core Fixed Income = BB Intermediate Government/Credit;
Inflation = Consumer Price Index; Commodities = Bloomberg Commodity Index

Over the last 25 years, commodities have slightly trailed inflation on an annualized basis while displaying equity-like levels of volatility. As such, we struggle to see the long-term benefits of a strategic allocation to the asset class.

In the short-term, oil prices have suffered from both high supply and low demand. Regarding supply, in early March disintegration of the OPEC+ alliance triggered a full-blown price war among the world's biggest oil producers. OPEC had convened in Vienna, Austria to discuss oil production cuts that would steady the market against softening demand from early coronavirus travel restrictions. Talks, and an important alliance between Saudi Arabia and Russia, broke down after Russia balked at the proposed scale of cuts. Saudi Arabia responded aggressively by discounting prices and committing to boost production in April. As production ramped, demand continued to slide as large portions of the global economy shut down in response to COVID-19. Lots of oil was being produced, nobody needed it, and storage capacity eventually ran out causing benchmark prices for WTI crude oil to bottom at -$37.63 on April 20. Prices have since recovered somewhat to +$33.52 as of this writing. Production cuts went into effect starting in May, and demand is slowly increasing as portions of the global economy re-open.

WTI Crude Oil Price Trailing Twelve Months



Source: Bloomberg

"Valuation of oil companies depends heavily on oil prices. Therefore, the energy sector has fared worse than others year-to-date."

Valuation of oil companies depends heavily on oil prices. Therefore, the energy sector has fared worse than others year-to-date. On a near-term basis, it is possible that the energy sector rebounds. The adage "the cure for low oil prices is low oil prices" will eventually lead to a realignment of supply and demand. Longer term, we believe the oil market will continue to be well supplied. Advancements in extraction technologies (i.e. hydraulic fracking) have unlocked abundant incremental supplies of oil, while the electrification of vehicles will likely result in lower demand. While a short-term trade into the energy sector may temporarily benefit from rising oil prices, we note that even $50 oil (150% of today's price) is not profitable for many industry participants long term.

Below, my colleagues offer additional insight on the energy sector in the context of our internally managed domestic equity strategy (Intrinsic Value Strategy), third-party managers and fixed income strategies.

Crude Thoughts on Oil Investments, continued

Intrinsic Value Strategy

Greenleaf Trust's Intrinsic Value Strategy is an internally-managed US equity strategy. The strategy focuses on companies with durable competitive advantages trading below their intrinsic value. Ali Fahs, Vice President and Senior Equity Portfolio Manager, shares his perspective on the energy sector in the context of the Intrinsic Value Strategy:

The Intrinsic Value Strategy has not been invested in the energy sector since 2018. The decision to exit our energy position was not predicated on a macro call or a view on the future direction of oil prices. Instead, our decision reflected the reality that most companies in the energy sector are incompatible with the investment framework we established in 2017. Our investment philosophy and process revolve around the long-term ownership of high-quality companies that trade at attractive valuations. For us, a company's quality emanates from its industry structure, business model, financial statements, and management. We seek to maximize our exposure to high-quality companies that are capable of generating predictable and durable free cash flow per share. Conversely, we will likely avoid highly competitive industries that earn insufficient returns on invested capital through an economic cycle.

> "In many ways, energy-related companies are the antithesis of what we define as high-quality companies… Not only does the sector lack capital discipline, but also capital spending is often financed with leverage."

In many ways, energy-related companies are the antithesis of what we define as high-quality companies. These companies tend to be highly-cyclical, capital intensive, and commoditized. Not only does the sector lack capital discipline, but also capital spending is often financed with leverage. What's more, these businesses have historically generated inadequate returns on invested capital, leading to shareholder value destruction over long periods of time. Valuing these assets is equally challenging. Oil prices are inherently volatile, and yet oil price forecasts are the key inputs in equity valuation models.

Traditional value investors might be tempted to view energy companies as cyclically depressed and an opportunity to earn excess returns. A "valuation call" could be predicated on the mean reversion of oil prices that ultimately translate into substantially higher normalized earning power. Clearly, we do not subscribe to this brand of value investing. Mean reversion is far from a guaranteed outcome. Also, if the price of oil remains low for an extended period of time, then energy companies' earning power will also remain depressed. Under this scenario, indebted energy companies face the dual threat of operating leverage and financial leverage, which in combination increase the likelihood of permanent capital impairments.

In our view, capital appreciation and capital preservation are of equal importance. Competitive advantages, profitable growth potential, balance sheet strength, corporate management, and valuation are important attributes we focus on in periods of economic expansion and contraction. By concentrating on companies that possess these attributes, we believe the Intrinsic Value

Strategy is well positioned to earn adequate returns over time. Correspondingly, the ownership of high-quality companies coupled with thoughtful portfolio construction also enables us to minimize the risk of permanently impairing our clients' capital.

Third Party Managers

Greenleaf Trust allocates to third-party investment managers in some segments of client portfolios. Lucas Mansberger, Investment Strategist and Senior Manager Selection Analyst offers his insights into how some of our managers approach the energy sector.

Our manager selection efforts are focused on differentiated, actively-managed strategies that can enrich client portfolios with a broader diversity of investment style and exposures. Our equity managers share an emphasis on fundamental, bottom-up stock selection and we generally classify them as "growth" or "value" depending on their relative emphasis on faster-growing or less expensive companies. That difference in focus is particularly relevant for investing in the energy sector.

Our growth managers tend to focus on companies with favorable long-term growth prospects while deemphasizing cyclical sectors and companies. As a result, with the exception of the Fidelity New Insights fund (which only averaged a 3% position in energy stocks), our growth-oriented managers have very little exposure to energy.

In contrast, our value managers view the energy sector differently. Starting the year, our managers held energy sector weightings that aligned with the benchmark weight of approximately 7%. The managers cited constructive industry fundamentals at the beginning of the year, including a strong economic backdrop for cyclical companies, improving oil supply/demand dynamics, and better balance sheet management amongst oil companies, as reasons to be favorable on the sector. Our value managers' views have changed somewhat due to the oil price war and the COVID-19 pandemic, and several have reduced their allocations year-to-date. Importantly, while their energy allocations may have had a negative impact in absolute terms, their specific energy positions have collectively added value.

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Fixed Income Strategies

Greenleaf Trust offers internally-managed individual bond portfolios for clients where appropriate. Chris Burns, Investment Strategist and Senior Fixed Income Analyst, describes our general philosophy for investing in energy sector bonds and offers his perspective on the current market environment.

Low oil prices are stressing the creditworthiness of many companies in the energy industry. The oil and gas industry is composed of upstream, midstream, *Crude Thoughts on Oil Investments, continued*

and downstream companies. The table below summarizes their operations. Every segment of the industry is pressured by low oil prices, but each is facing unique dynamics specific to their own operations.

Integrated	Upstream		Midstream	Downstream
Integrated Oil & Gas	Independent Exploration & Production	Oilfield Services	Pipelines, Processing & Storage	Refining & Marketing
Vertically-integrated companies that operate in every segment of the oil & gas market.	Identify, explore, appraise, develop and produce oil & gas from fields.	Provide services, drilling, machinery & equipment, and engineering and construction to companies that extract oil & gas.	Build and operate pipelines, storage, processing to transport crude oil and natural gas to refining facilities.	Processing crude oil into finished products such as gasoline & heating oil.
Integrated producers are among the largest and best-capitalized companies in the sector. Nevertheless, they are taking extraordinary steps to preserve cash. Royal Dutch Shell announced their first dividend cut since World War II, a 66% reduction. We expected integrated oil companies will experience fewer credit losses than other segments of energy.	Independent E&P companies are likely the most-impacted segments of the energy market. The stock of high-yield rated debt could grow significantly as we see many Fallen Angel candidates among these companies. In the high yield segment, we expect a significant increase in defaults and distressed exchanges.	Oilfield Services companies are highly impacted by the reduction in capital expenditures by E&P companies. We expect downgrades and, among high yield issuers, debt restructurings and defaults. The outlook for Fallen Angels will depend on how quickly the capital expenditure cycle rebounds.	Midstream companies have been a place of relative stability within energy during this period. The need for storage facilities is particularly high as weak demand has led to storage capacity issues. That said, there are several large credits that are only one notch away from a downgrade to junk, so we will be watching this segment closely.	Refining and marketing companies have slightly more flexible cost structures than other segments of the energy market. There haven't been any ratings changes yet this year, but ultimately, this segment needs energy demand from transportation to earn profits. The outlook will depend largely on how quickly the economy can reopen.
Fallen Angels: Cenovus Energy - $5b	Fallen Angels: Occidental - $35b, Apache - $7b, Continental Res - $5b, EQT Corp - $4b	Fallen Angels: Patterson-UTI - $0.9b	Fallen Angels: Equitrans - $3.5b, Rockie Exp - $2.1b, Al Candelaria - $0.7b	Fallen Angels: None

"We view many aspects of owning energy-related credits [lending to the industry] as unappealing."

We view many aspects of owning energy-related credits as unappealing. Some of the drawbacks of lending to the industry include:

- *Companies compete to produce commodity products (i.e. companies are price-takers and cannot differentiate)*
- *Highly competitive industry with many government-affiliated producers globally*
- *Highly cyclical revenue and cash flows*
- *Capital intensive industry with high proportions of fixed costs*
- *Revenue sources are subject to depletion*
- *Highly regulated industry*

So, where we incorporate energy bonds into portfolios we are seeking a combination of (1) a compelling yield advantage for the additional risks, and/or (2) a sufficiently creditworthy issuer. That typically leads us to invest in higher quality credits and to avoid riskier, but higher-yielding issuers. As a result of this conservative orientation, most client portfolios have experienced minimal impact from this period of volatility in energy credits.

Energy companies are responding to low energy prices by reducing operating & capital expenditures and reducing payments to shareholders (dividends and buybacks). Some high yield issuers are negotiating with lenders to reorganize debt profiles to avoid default. This is all being done to preserve liquidity. Ratings agencies have been downgrading companies, particularly in the high yield independent exploration and production segment. Without a meaningful increase in the price of oil, we expect additional downgrades and defaults in the coming 12-18 months.

As we look forward, we will continue our conservative approach to investing in energy credits. We will be paying close attention to the ratings environment, particularly watching the stock of "Fallen Angels", companies downgraded from investment grade to high yield. We believe there are several candidates for downgrade to junk in the Independent E&P segment as well as the midstream segment.

"[Our] approach to commodities, oil, and the energy sector has served our clients well and we will remain disciplined in our evaluation of investment opportunities."

Conclusion

In closing, reduced output and gradual demand increases could cause oil prices to rise from current levels, which would likely coincide with short-term appreciation of energy company stocks and marginally improved credit-worthiness. That said, our investment philosophy assumes a long-term orientation at the portfolio level and within underlying strategies. This approach to commodities, oil, and the energy sector has served our clients well and we will remain disciplined in our evaluation of investment opportunities. Please contact any member of our team if you have questions.

Durable Powers of Attorneys — Time for Some Limits?

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

A durable power of attorney is an important part of any estate plan. With a durable power of attorney, an attorney-in-fact (agent) can manage an individual's (*principal*) financial affairs without the need for a probate court appointed conservator when the principal is either unable, or incapable, of making decisions. While a durable power of attorney adds important flexibility to managing an individual's assets, an agent abusing the authority given to them under a durable power of attorney can also destroy a principal's estate plan.

A recent court decision is a reminder of the dangers of giving someone a durable power of attorney when it was abused by the agent, I this case the principal's son. In *Nice v United States, No. 18-7362 (E.D. Louisiana, October 16, 2019)* Mary Ellen found herself a widow after 62 years of marriage. Mary Ellen's son, Chip, who moved in with Mary Ellen in 2004 shortly after his father's death. Mary Ellen began to show signs of cognitive impairment, and she was subsequently diagnosed with 'early dementia,' which became progressively worse as the years passed. In 2011, Chip obtained a durable power of attorney from his mother. Chip then slowly separated Mary Ellen from managing her finances and began to divert his mother's income to his own personal use. Using Mary Ellen's durable power of attorney, Chip had distributions from Mary Ellen's IRA deposited in her bank account, which Chip then withdrew and used for his own benefit. By 2014, Chip's sister had seen enough, and she filed a lawsuit and had herself appointed as Mary Ellen's conservator. As conservator, she also had the court declare that Mary Ellen's durable power of attorney given to Chip a nullity due to her dementia.

"… an agent abusing the authority given to them under a durable power of attorney can also destroy a principal's estate plan."

Not only was Chip's behavior egregious, the worst was yet to come. The issue in this federal court litigation was who was responsible for the payment of the income taxes on the funds that Chip withdrew from Mary Ellen's IRA. No taxes had been withheld from the IRA distributions over the years and an income tax bill of $519,502 was outstanding at the time of the litigation. Mary Ellen, through her attorneys, claimed that she should not be liable for the income tax liability. They argued that since Mary Ellen never received the IRA distributions, she was unaware of the distributions from the IRA, she did not exercise any control over those IRAs and therefore, she did not benefit from the IRA distributions. Unfortunately, Mary Ellen had periodically written small checks from the depository account for her piano lessons and her hair appointments. Based on the few checks that Mary Ellen wrote against the bank account the federal judge found that Mary Ellen was responsible for the income tax liability, because she "continued to have access to the account and she arguably had the ability to control the disposition of the funds." Therefore, the IRA distributions wrongfully obtained by Chip, using his mother's void durable power of attorney, were nonetheless taxable to Mary Ellen, even though Chip had effectively deprived her of most (if not all) of the IRA distributions. The judge's decision was silent with regard to where Chip was, or what liability, if any, Chip had to his mother. It is clear that the Nice family was destroyed by Chip's greed and misuse of his mother's durable power of attorney.

In Michigan, a durable power of attorney is governed by the law of agency. An agent who serves under a durable power of attorney acts as a fiduciary, whether or not the instrument describes or mentions that relationship. At common law, and under Michigan statutes, the agent is subject to the prohibition of self-dealing, but if the principal consents and has full knowledge of the facts, the agent may personally engage in a transaction with the principal or the principal's other agents, i.e. self-dealing.

The Michigan statute that authorizes a durable power of attorney provides some guidelines with regard to the agent's standard of care when using the power of attorney, but it is questionable how effective that standard of care is to constrain the actions of an agent who intends to abuse the trust placed in him or her. Michigan's statute requires the agent: (i) to take *reasonable steps* to follow the principal's directions; (ii) provide an accounting to the principal *upon request;* (iii) not make a gift of all, or any, of the principal's property, unless provided in the durable power of attorney; (iv) *unless provided in the durable power of attorney,* while acting as agent, not create an account or other asset in joint tenancy between the principal and agent; and (v) maintain records of the agent's actions, including transactions, receipts, disbursements, and investments.

"… by the time someone discovers the fact that the agent did not adhere to the proscribed standard of care, considerable damage is done…"

The problem with these constraints is that by the time someone discovers the fact that the agent did not adhere to the proscribed standard of care, considerable damage is done to the principal's financial or to the principal's estate plan if assets no longer exist to be governed by principal's Will or Trust. To avoid that situation, additional provisions should be added to a durable power of attorney for financial affairs to provide greater protection to the principal and his or her financial affairs. Some examples follow:

1. The durable power of attorney should be held by a trusted third party, e.g. the principal's estate planning attorney, until the events arise where the durable power of attorney is needed by the agent for decisions.
2. Rather than impose a duty to account on the agent predicated upon the principal's *request*, the agent should be required to periodically account to the principal, if he or she capable of understanding the accounting, otherwise the agent should provide an accounting to the successor agent named in the durable power of attorney. These accountings should at a

Durable Powers of Attorneys — Time for Some Limits?, continued

minimum be annual, and preferably within a reasonable period after the agent exercises the durable power of attorney, e.g. within 60 days of any change to a beneficiary designation.

3. For some extraordinary powers given to the agent under a durable power of attorney, such as changing the beneficiaries for an IRA, a transfer-on-death investment account, or life insurance policy, that exercise might require the consent of a co-agent. For example, if the agent wants to change the beneficiaries of the principal's IRA, the written consent of the successor agent identified under the durable power of attorney would be required before the change is enforceable.
4. Dollar limits can be imposed on the agent's authority under the instrument. For example, the agent might be authorized to only withdraw the principal's required minimum distribution from his or her IRA. Any amounts to be withdrawn above the required minimum distribution amount would require the consent of a third party, like the principal's accountant. Similarly, dollar limits can be imposed to restrict the agent's ability to make gifts, such as limiting the amount of the gift to an individual to the gift tax annual exclusion amount of $15,000, or restrict the total amount that the agent may gift using the durable power of attorney in a calendar year, e.g. "no more than $45,000 may be gifted by the agent during the calendar year using this durable power of attorney."
5. The agent's ability to make charitable gifts on behalf of the principal might be limited to only those charities to which the principal made gifts in prior years, as reported on the principal's income tax returns.
6. If the principal is formally diagnosed with dementia, that diagnosis might act as a trigger to elevate the 'back-up' named agent to a co-agent capacity, where both agents will have to act in concert with each other to utilize the durable power of attorney.
7. Language might be included in the durable power of attorney that provides that if the agent fails to timely report his or her activities using the durable power of attorney, or fails to timely file an accounting, then the agent's actions will be presumed to be a breach of fiduciary duty and self-dealing. This would provide an added incentive to the agent to follow through with his or her reporting and accounting responsibilities.

A durable power of attorney is a critical and necessary lifetime part of an effective estate plan. But that same durable power of attorney can also be the source of the principal's financial ruin, as the Nice facts abundantly demonstrate. Consider the adding some guardrails to your durable power of attorney to provide additional peace of mind that the agent named in the instrument will act responsibly and consistent with your best interests.

"Consider the adding some guardrails to your durable power of attorney to provide additional peace of mind that the agent named in the instrument will act responsibly and consistent with your best interests."

Pandemic Reveals Financial Wellness Programs a Necessity

Lorey L. Matties
Participant Services Specialist

Financial wellness, and the need for employee financial wellness programs, has increasingly gained attention in the past decade. Pre-COVID-19, offering a financial wellness program to employees was considered a value-added benefit, but the coronavirus pandemic suggests it is now an urgent necessity with a major emphasis on emergency savings.

Simply put, financial wellness is the ability to have a healthy financial life. It means your debts are payable and you have ample emergency, college and retirement funds. You are well prepared to handle an unexpected financial crisis. The coronavirus has forever changed our definition of being well prepared and has enhanced the spotlight on an existing problem: too many people are already living paycheck to paycheck.

A recently released survey from First National Bank of Omaha shows that as many as 78% of Americans are living paycheck to paycheck, with about 40% not able to cover an unplanned $400 expense. In addition, 56% have less than $10,000 saved for retirement and 36% have less than $1,000 saved. The average household take-home pay goes towards paying off consumer debt. It is very clear that Americans are undersaved for both retirement and emergencies. The pandemic has exposed workers' need for financial coaching and for employers to offer financial wellness resources.

"… as many as 78% of Americans are living paycheck to paycheck, with about 40% not able to cover an unplanned $400 expense."

Employers already play a vital role in helping employees save, invest and prepare for older age and retirement. Employer-sponsored retirement benefits, such as 401(k) or 403(b) plans, have proven to be highly effective at encouraging savings through the convenience of payroll deductions. Employers can profoundly influence their workers' financial security and promote planning, guidance and educational resources. Education will need to be about more than just retirement.

At Greenleaf Trust, we see the value of implementing programs to support employees' financial wellness, including retirement education. Our participant services team is committed to providing our plan participants with the basic knowledge and understanding that is needed to secure a financially secure future.

Tonia Kennedy
Vice President, Trust Officer
Greenleaf Trust Delaware

"A quiet or silent trust functions the same way a standard irrevocable trust does. The only difference is that the language in the document specifically limits or restricts notification to the beneficiaries regarding the trust."

An Introduction to Delaware Quiet Trusts

Given the current state of our environment, many estate plans have been accelerated, which could include creating and transferring assets into an irrevocable trust to benefit family members. For several reasons, grantors may worry about beneficiaries becoming aware of a trust. Delaware may be a venue to alleviate grantors' fears.

Traditionally, when someone is interested in putting assets aside for his or her family's benefit, there are discussions about how to structure the gift. If the person decides to create an irrevocable trust, there are several additional questions about the terms, beneficiaries, etc., of the trust. One concern a grantor may have is the loss of control. In particular, he or she may experience apprehension about how certain information relating to the trust will be disseminated to family members, and this anxiety could be due to the beneficiaries' maturity or for other reasons. Also, the grantor may not want beneficiaries to be aware of the trust so that the beneficiaries can reach their full potential by not relying on funds in trust the grantor has worked so hard throughout his or her lifetime to earn.

Delaware allows quiet trusts, also known as silent trusts, which may alleviate most of the grantor's concerns mentioned in the above paragraph. A quiet or silent trust functions the same way a standard irrevocable trust does. The only difference is that the language in the document specifically limits or restricts notification to the beneficiaries regarding the trust.

Delaware, like Michigan, has default disclosure rules for trustees. Delaware's rules are established by McNeil v. McNeil, 798 A.2d 503 (Del. 2002). It states, "A trustee has a duty to furnish information to a beneficiary upon reasonable request. Furthermore, even in the absence of a request for information, a trustee must communicate essential facts, such as the existence of the basic terms of the trust. That a person is a current beneficiary of a trust is indeed an essential fact."

Delaware enacted a statute which allows trust instruments to limit a beneficiary's right to information relating to the trust or it's existence for a period of time, which could be related to the age of a beneficiary, the lifetime of the grantor and/or the grantor's spouse, to a term of years or specific date or to a specific event certain to occur. The regulation of details is for a defined period that is certain to happen; it is not forever.

The time-period when the disclosure of information is either limited or restricted is commonly referred to as the "silent period". During the silent period, a "designated representative" may be appointed if expressly provided in the terms of the governing instrument or by reference to the applicable section of the Delaware Code. The "designated representative" is authorized or may be directed under the terms of the governing instrument to represent or bind beneficiaries in connection with a judicial proceeding or nonjudicial matter, and this typically includes receipt of statements for the trust.

Once the "silent period" ends, the trustee will contact the beneficiaries to inform them of the trust and its existence. Since the grantor has been instrumental in determining the silent period, one would presume, the beneficiaries are well prepared when contacted by the trustee regarding the trust.

If your estate plan includes creation of an irrevocable trust, but you would prefer information is restricted to beneficiaries, a quiet or silent trust may be for you. It allows you to put money aside, thereby removing it from your estate for estate tax purposes. In addition, the property is protected and will benefit those named in the document drafted pursuant to your specifications, which could include limiting the disclosure of the trust's existence to the beneficiaries for a specified time. You may appoint someone as the designated representative during the "silent period" to act on behalf of the beneficiaries, which, as stated previously, would include receiving statements from the trustee.

While Michigan does not currently allow this option, a quiet or silent trust is available in Delaware through Greenleaf Trust's sister organization, Greenleaf Trust Delaware. If you are interested in learning more about quiet/silent trusts, please contact a member of your client centric team.

"While Michigan does not currently allow this option, a quiet or silent trust is available… through Greenleaf Trust's sister organization, Greenleaf Trust Delaware."

Mark A. Jackson, CFA®
Senior Wealth Management Advisor

Volatility in the Equity Market and the Role of Bonds

"High quality bonds have performed well versus equities during this market volatility."

After reaching a high on February 19, COVID-19 and the decline in oil prices drove selling pressure on the Standard & Poor's 500, leading to a 34% decline by March 23. Actions taken by the Federal Reserve Board and spending programs by the federal government have helped this equity market index climb by almost 36% from the March low. I want to review how bonds have performed during this equity market volatility and our current fixed income strategies.

In previous newsletters, we have reviewed why we hold fixed income securities and bond funds but a refresher is provided below:

- Fixed income may provide diversification benefits by exhibiting different price movements, at different times, than the equity markets, providing principal protection and reduced price volatility in your overall portfolio.
- We are employing a defensive interest rate strategy by building our bond portfolios with an intermediate maturity structure. Prices will still decline if rates rise, but not to the same degree as if longer maturity bonds were held.
- We create well diversified portfolios, across multiple issuers and sectors.
- We often see opportunities to add other types of fixed income funds, for example, international bond funds, to increase return potential and/or provide additional diversification.
- Fixed income provides pre-tax and after-tax income.
- Rising interest rates may provide an opportunity to reinvest cash flow into fixed income securities and funds at increasingly higher interest rates.

High quality bonds have performed well versus equities during this market volatility. On a year-to-date basis, the 4-year average maturity bond market index that we share with clients has returned a positive 3.6% and has returned a positive 7.8% over the last 12 months. Over the same year-to-date and 12 month time periods, the Standard & Poor's 500 has returned -10.3% and -0.1%, respectively.

But within the bond market, different securities have performed in different ways. This 4-year average maturity bond index is allocated approximately 66% to government securities and 34% to corporate bonds. US Treasury securities have performed particularly well during this volatile period for equities, as the interest rates on Treasury securities have fallen and prices have risen. The prices on high quality corporate bonds, and even high-quality municipal bonds, have declined over this same time period. These sectors of the bond market have been negatively impacted by a number of factors: investors selling bonds to raise cash, reluctance on the part of bond dealers to buy bonds unless they have buyers lined up to purchase bonds, concern with potential deterioration in credit quality as the economy shuts down, and concern with financing and re-financing opportunities for corporations and municipalities.

In response to the virus and the anticipated impact on the economy and financial markets, in March, the Federal Reserve lowered its target for the federal funds rate to a range of 0% to 0.25%. While this is the rate at which banks borrow and lend funds with other banks, the rate also impacts the return available on other securities. For example, the interest rate on three month Treasury Bills has declined to 0.12%. The return on money market funds which invest in Treasury securities has declined to under 0.25%.

In response to the trading disruptions in the corporate and municipal bond markets, the Federal Reserve announced programs to purchase government, corporate, mortgage backed and municipal bonds. These actions, as well as the announced government spending programs, have helped stabilize the investment grade corporate and municipal bond markets.

Our fixed income portfolios have performed relatively well. Over the last few years, we have increased the average credit quality of portfolios by selling the bank loan fund that was held across portfolios, reducing the allocation to intermediate maturity corporates, investing in shorter maturity corporates and increasing our allocations to US Treasury Notes and to a US Treasury Inflation Protected Securities (TIPS) fund. We hold a small allocation to an emerging markets debt fund which has declined in value but we continue to believe that this investment will provide return and diversification benefits longer term for our clients' portfolios. We also hold a high yield municipal bond fund in our client portfolios that are focused on generating tax-preferenced income. This fund has had a modest price decline year-do-date, but has performed competitively with peers.

Volatility also provides opportunity. In response to the decline in prices and increase in interest rates on investment grade corporates and US agency securities, we are increasing our target allocation to corporate bonds and modestly extending the average maturity of our corporate bond purchases. These allocation changes may occur through the purchase of individual corporate bonds or an intermediate maturity corporate bond fund. We are also initiating an allocation to intermediate maturity US agency bonds or a fund that invests in agency bonds. Finally, we are continuing to add tax exempt municipal bonds to our portfolios, in some cases, at pre-tax interest rates which are higher than the returns available on comparable maturity US Treasury securities.

Bonds continue to play a key role as part of a diversified portfolio. Please call your client centric team members if we may help with anything.

> "[Federal Reserve] actions, as well as the announced government spending programs, have helped stabilize the investment grade corporate and municipal bond markets."

Stock Market Pulse

Index	5/31/2020	Total Return Since 12/31/2019
S&P 1500	690.84	-5.95%
Dow Jones Industrials	25,383.11	-10.06%
NASDAQ	9,489.87	6.28%
S&P 500	3,044.31	-4.98%
S&P 400	1,763.95	-13.86%
S&P 600	803.11	-20.82%
NYSE Composite	11,802.95	-14.19%
Dow Jones Utilities	806.92	-7.09%
Barclays Aggregate Bond	2,346.72	5.47%

P/E Multiples	5/31/2020
S&P 1500	21.2x
Dow Jones Industrials	18.8x
NASDAQ	37.6x
S&P 500	21.2x
S&P 400	19.9x
S&P 600	26.4x

Key Rates

Fed Funds Rate	0.00% to 0.25%
Tbill 90 Days	0.13%
T Bond 30 Yr	1.41%
Prime Rate	3.25%

Current Valuations

Index	Aggregate	P/E	Div. Yield
S&P 1500	690.84	21.2x	1.99%
S&P 500	3,044.31	21.2x	1.99%
Dow Jones Industrials	25,383.11	18.8x	2.57%
Dow Jones Utilities	806.92	19.8x	3.22%

Spread Between 30 Year Government Yields and Market Dividend Yields: -0.58%

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