GREENLEAF TRUST

Perspectives

A Greenleaf Trust Newsletter

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William D. Johnston
Chairman, Greenleaf Trust

Economic Commentary

We all run across quotes from a variety of sources during the course of our lives. Some of those quotes stick with us for any number of personal reasons. Close to twenty years ago a person who I think is a really talented behavioral scientist said "Big people share and little people keep secrets." I took note of it, and used it as one of my filters in life that helped me know who I respected and wanted to be around and who I didn't. Warren Buffet passed this test because he never kept secrets. He was an open book, and never hesitated to share what his life experiences taught him. I am certain others have spoken similar words, but Warren was credited with offering the truism, "If you can keep your head when others are losing theirs, you will be well served." Emotional investing has particularly outsized impact in short-term market movements. Panic is not rational and is almost always created by voids of logical thought and cogent information. The recent panic-driven reaction to the Coronavirus has certainly been created by emotional behavior in the absence of fact.

Nick Juhle and his fine research team have created weekly updates on COVID-19 in which he provides a monitor-like dashboard on global real time detected cases of the Coronavirus and deaths that have occurred. It is an excellent piece and is available to clients of Greenleaf Trust through our website and our client centric team members.

Words and terms evolve in popular culture media, and a current phrase, "existential threat," has been amplified by current political discourse that focuses on global warming. The Coronavirus threat topic has now also been tagged with this term. The dictionary meaning of existential threat implies a threat so severe and real that it could eliminate existence. Wow, that is big! Cable networks have many channels and 24 hours of programming to fill seven days a week and thus quality sometimes suffers. One wonders why there hasn't been some attempt to publish more factual content about COVID-19 and perspective on other relevant pandemic experiences in our history. A pandemic differs from an epidemic in that the novel virus in an epidemic spreads globally, thus the term pandemic.

The CDC (Center for Disease Control) didn't begin until July 1, 1946, thus some of the history of previous pandemics is more driven by media

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Commentary, continued

accounts than coordinated health agency data, yet the information available helps us frame some perspective on the size of the infections and mortality rate of each different strain of virus.

Russian Flu cases in 1889 were hard to pin down, yet we do know that approximately one million people died of symptoms aligned with the description of the virus in that year. It is difficult to understand the mortality rate or demographics of those who died.

Spanish Flu was named in 1918 because it was widely believed that World War One troop movements, particularly from Spain, were responsible for the global spread of the disease. One-third of the world's population was infected, nearly 500 million people, and somewhere between 50 – 100 million died as a result.

Asian Flu, originating in Singapore in 1957, was responsible for 1.1 million deaths globally. Hong Kong Flu, which began in 1968 and lasted until 1970, killed another one million people throughout the world.

Swine Flu, 2009 to late 2010, was identified as originating in the United States and was unusual in that most deaths (574,000) were in people younger than 65. Prior to the Swine Flu, 70% of all deaths occurring in pandemic outbreaks of flu viruses were in people over the age of 65.

Current data on COVID-19 or Coronavirus reveals that there have been 92,314 cases diagnosed and that 3,134 individuals have died (3.4% mortality rate) as a result of complications attributed to contracting the virus. Both of these numbers will grow, but the sample size is large enough now that the mortality rate is not likely to grow. In fact, as treatment modalities become more standardized, the mortality rate is likely to decline.

Of course, global mortality rates are an expression of all who have been diagnosed and have succumbed as a result of complications created by the disease. If a diagnosed patient was 80 years of age, suffered from respiratory issues, hypertension, diabetes or cardiac disease their mortality rate doubled.

So what do we know with the historical perspective of global pandemics of flu like viruses? First, we are early in this pandemic. Most flu-borne pandemics run between 12 and 24 month cycles with the common average being 14 months. China was the first country to report the spread of COVID-19 and thus their experience is the longest in current duration. Based upon CDC data that is highly dependent upon China data releases, there are now fewer current cases than diagnosed cases, and hospital discharges are exceeding admissions. Currently, the largest number of diagnosed cases and deaths are inside mainland China. There will be more of both, but currently the rate of both admittance for

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COVID-19 and deaths in China appears to be slowing.

More is being learned daily if not by the hour about the Coronavirus, such as proper treatment, quarantine protocols, the development of antiviral medications and, longer term, preventive vaccinations. Emergency preparedness particularly around large population gatherings such as schools, universities, entertainment and sporting events, are being defined rapidly. Travel is restricted to and from several high outbreak countries and involuntary quarantines are increasing. Rapid response teams are being described by the CDC to put resources on target quickly if "hot spots" such as Kane County, Washington increase.

There is a high probability that consumer confidence will suffer a setback, as will consumer spending. The impact on economic activity will be more interruptive than significant if the steps taken and treatment protocols have a positive impact. The Federal Reserve has cut interest rates by 50 basis points, in a move they described as stimulative, in anticipation of weakening consumer demand. The Fed's reaction seems more political than substantively needed. Lowering the cost of bank borrowing will not increase consumer demand that weakens due to sagging confidence. What will return confidence is real action to control, treat and eliminate the current COVID-19 strain of virus and transparent data that demonstrates progress.

We are living in both interesting and challenging times. We have experienced seven pandemics in the last century, and four of those in the last 50 years. The probability of experiencing more in a globally mobile world is high. Pharmaceutical companies have little incentive to tie themselves to antibody research if sovereign governments don't reward that research by investing in novel virus research and vaccines to prevent and control outbreaks that lead to pandemics. Photo ops of pharmaceutical executives sitting at the cabinet table with the President won't move the needle (pardon the pun), but investing in the CDC, National Institutes of Health and global sharing or research will. Is COVID-19 an existential threat? No, but we are early and there will be more cases and more deaths. We will continue to monitor and report facts when we learn them.

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2020 Day of Caring

"Our commitment to the communities we serve was strengthened once again through our fifth and largest annual Day of Caring."

In the spirit of continuous improvement, each year we set out to identify ways that Greenleaf Trust could have an even greater impact on the communities in which we live and work. Our team currently serves on numerous non-profit and not-for-profit boards, partners financially with community impact firms through giving and fundraising efforts, and collectively volunteers countless hours each year. This is not something they are required to do as part of their employment at Greenleaf Trust, it's simply something they are compelled to do because of who they are.

Our commitment to the communities we serve was strengthened once again through our fifth and largest annual Day of Caring. Each President's Day, with capital markets closed, teammates are given the day off to form groups and volunteer together at a non-profit of their choosing within their respective communities. As our team has grown, so has our impact. Over 1,000 hours on this day alone were spent giving back to food pantries, youth programs, resource centers and other non-profit institutions, many of which are clients within the communities in which we live, work, and seek to remain deeply rooted. Teammates sewed, painted, cleaned, organized, prepared lunches, donated, and read at nearly 15 different non-profits in our communities.

A couple of stories from our 2020 Day of Caring stood out to me and were representative of why we started this tradition. The first involved one of our teammates volunteering with her two boys at SPCA of Southwest Michigan. Their day mostly involved helping with kennel maintenance. However, after their work was done, they were able to visit with the dogs that were up for adoption. After meeting Senator Chunky, they knew they were the ones to provide her with a forever family and home. They applied and were selected through the adoption process and cannot imagine their family without her.

For the past few years, a group of teammates has also been constructing fleece blankets for patients at the Bronson Children's Hospital on our Day of Caring. Prior to joining the Greenleaf team, the daughter of one of our newest teammates was the recipient of one of these blankets. The blanket became a special part of her recovery process. During his onboarding process, the new teammate watched a video on a past Day of Caring and to his astonishment saw his daughter's blanket being made by another teammate. Needless to say that teammate joined the fleece blanket group this year and provided further inspiration for them all with this story.

At Greenleaf Trust, we believe that small actions multiplied by lots of people can equal a big change. We embrace this teamwork philosophy as we serve on behalf of our clients. I am proud to be part of a not-only-for-profit organization that makes a real difference: not only in the lives of our clients, but also the communities in which we live and work.

Planning Opportunities After the Secure Act

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

We have had a couple of months now to digest the implications of the SECURE Act and its end to the stretch distribution rule that benefited most individuals who inherit an IRA or 401(k) retirement account on the owner's death. Rather than permit an individual designated beneficiary to take distributions from the inherited retirement account over the beneficiary's life expectancy, the SECURE Act's new distribution rule requires many individual designated beneficiaries to withdraw the retirement funds over a period of ten years from the retirement account owner's death. The obvious implication of this change in distribution rules is that rather than withdraw and report taxable ordinary income over possibly multiple decades, now all that ordinary taxable income will be reported by the beneficiary over a much shorter period of time, arguably exposing that ordinary income to marginally higher income tax brackets.

The only exceptions to this 10-year distribution rule is if the individual designated beneficiary of the retirement account are: the owner's surviving spouse; the owner's minor children; a disabled or chronically ill individual; or an individual who is less than ten years younger than the account owner. In the case of naming a minor child as the retirement account beneficiary, once that child attains the age of majority (18 years in Michigan) that then starts the required 10-year period of withdrawal.

However, overlooked in barrage of press releases with regard to the SECURE Act's elimination of the 'old' lifetime stretch distribution rule for all retirement account beneficiaries, is yet another more flexible change in the required distribution rules with respect to a beneficiary inheriting a retirement account. That change provides that the beneficiary need not take any taxable distributions from the inherited retirement account until the year of the 10th anniversary of the death of the retirement account owner. Under the prior stretch distribution rules, the beneficiary had to start taking distributions from the inherited retirement account in the year that followed the retirement account owner's death, and each year thereafter, in slightly larger amounts. Now the beneficiary can wait until the 10th anniversary of the retirement account owner's death before taking that single taxable distribution, which should enable the beneficiary to better time the recognition of the taxable ordinary income distributed from their inherited retirement plan account.

Some other steps now to consider if an individual owns a large

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Planning After the Secure Act, continued

retirement account include:

- DETERMINE IF THE BENEFICIARY IS PREPARED FOR ACCELERATED DISTRIBUTIONS: When the stretch distribution rules were applicable, many perceptive grandparents named their young grandchildren as the beneficiaries of the grandparents' retirement accounts in the belief that their grandchildren would have multiple decades over which to take taxable distributions from their inherited retirement account. With the 'death of the stretch' those grandparents may want to reconsider naming their grandchildren as the beneficiaries of their retirement accounts if they now understand that the entire inherited retirement account must be emptied by the 10th anniversary of the account owner's death. That distribution rule may mean that too much wealth may come too fast to beneficiaries who are not prepared to manage that kind of wealth.

"... one of the problems posed by the SECURE Act's 10-year distribution rule is that all the tax-deferred income will be reported in a relatively short period..."

- CONVERT TRADITIONAL IRAS TO ROTH IRAS: As noted, one of the problems posed by the SECURE Act's 10-year distribution rule is that all the tax-deferred income will be reported in a relatively short period by the beneficiary of the inherited retirement account. If the owner of the retirement account converted a portion of their traditional IRA to a Roth IRA, that conversion would mitigate, to an extent, the higher income taxes that beneficiary may have to pay. The 10-year distribution rule now applies to inherited Roth IRAs as well as traditional IRAs, but the benefit of the Roth IRA is that the income it generates is tax-free. Consequently, if the beneficiary receives an inherited Roth IRA, they can permit that tax-free income generated by the Roth IRA to grow for a full ten years before the Roth balance must be distributed to the beneficiary, but entirely income tax-free. A partial conversion of a traditional IRA to a Roth IRA can reduce the owner's own income tax liability incurred on the Roth conversion, and it then reduces the beneficiary's income tax liability when the beneficiary must take distributions from the inherited traditional IRA. The tax expense incurred by the IRA owner to convert their traditional IRA to a Roth IRA is admittedly a major drawback. However, with the relatively low current federal income tax rates and the broadened spread between federal income tax brackets enables a traditional IRA to be converted over several years to a Roth IRA without pushing the IRA owner into a marginally higher federal income tax bracket when the converted amount is recognized in their taxable income.
- PLAN FOR DISCLAIMERS: Many families might consider this planning opportunity. Assume that husband and wife each own traditional IRAs. They follow conventional estate planning advice- each spouse names the other as the primary beneficiary of his or her IRA, in order

to permit the survivor to rollover the deceased spouse's IRA to the survivor's own IRA and thus delay having to take required minimum distributions until age 72. Assume further that husband and wife each name their two adult children as the contingent or secondary beneficiaries of their traditional IRAs. Upon the husband's death, his wife becomes the sole owner of husband's IRA. The wife then rolls her late husband's IRA into her own IRA, in effect consolidating the two IRAs. When the wife dies their children will each inherit 50% of the balance of the wife's consolidated IRA. The two children must then withdraw their deceased mother's 'consolidated' IRA over the following 10 years, with those taxable distributions perhaps pushing the children into marginally higher federal income tax brackets due to that taxable income bunching.

Suppose, instead, that on the husband's death his surviving spouse disclaims a large portion, e.g., $200,000 of her late husband's traditional IRA. That means that each of the two adult children will then directly inherit $100,000 of their father's IRA. The children will then ratably take distributions of roughly $10,000 a year over the next 10 years. That additional $10,000 a year taxable income will probably not push the children into higher marginal federal income tax brackets. On their mother's subsequent death, the two children will inherit the balance of her 'consolidated' IRA. The children will then start a second 10-year IRA distribution period, beginning with their mother's death. In short, with a timely disclaimer by the surviving spouse of some (or potentially all) of her husband's IRA, her children might have up to 20 years in which to take distributions from their father's traditional IRAs, spreading that taxable income over two separate 10-year distributions. The income tax benefits of a qualified disclaimer should be discussed when contingent IRA beneficiaries are identified; while there is no obligation imposed on the surviving spouse to make a disclaimer of some of the inherited IRA, substantial income taxes can be saved through the 'doubling' of the 10-year distribution rule.

"…substantial income taxes can be saved through the 'doubling' of the 10-year distribution rule."

- THE CHARITABLE REMAINDER TRUST WORKAROUND: A long-standing estate-planning tool, the charitable remainder unitrust, or CRUT, might be an alternative to the loss of the stretch distribution rule from an inherited retirement account. Instead of naming an individual, e.g., a child, as the traditional IRA beneficiary, a CRUT is named as the IRA's beneficiary. The CRUT is a tax-exempt entity. Accordingly, the decedent's entire traditional IRA is distributed after his or her death to their CRUT and no income tax liability will immediately result. Thereafter, the CRUT is directed to distribute

Planning After the Secure Act, continued

"While the loss of the stretch distribution rule caused by the SECURE Act is admittedly a set-back, some new estate planning strategies still exist to mitigate that loss..."

annually some of its assets to the CRUT's individual beneficiary, e.g., the decedent's child. The annual distribution can either in a specific amount, i.e., like an annuity, or it can be a specific fraction or percentage of the IRA amount that was initially transferred to the CRUT, e.g., 5% distributed annually. To the extent that the CRUT makes annual payments to the lifetime beneficiary, it functions much like the 'old' stretch distribution rules, but with a couple of important differences. First, the present value of 10% of the initial IRA amount transferred to the CRUT must be preserved ultimately for the charity that is assigned the remainder interest in the CRUT. This 10% set-aside for the charity reduces the amount that is then available to be invested and annually distributed to the individual lifetime beneficiary. Second, the amount distributed to the lifetime beneficiary is not tied to their life expectancy; rather the amount distributed to the CRUT beneficiary must be no less than 5%, nor more than 50% of the initial amount transferred to the CRUT. The CRUT can last either for the individual beneficiary's, thus mimicking a 'old' stretch distribution rule over the beneficiary's lifetime, or for maximum of 20 years, if several individuals are named as the CRUT's lifetime beneficiary.

While the loss of the stretch distribution rule caused by the SECURE Act is admittedly a set-back, some new estate planning strategies still exist to mitigate that loss and also to exploit new opportunities created by that Act.

Proposed Changes to the Accredited Investor Rule

Lucas W. Mansberger, CFA®, CAIA®
Investment Strategist
Senior Manager Selection Analyst

Late last year, the Securities and Exchange Commission (SEC) attracted a lot of public attention when it issued a proposal to update the definition of an accredited investor. The definition relates to who can, and who cannot, invest in private, or unregistered, investment offerings. Registered securities, like publicly-traded stocks and bonds, mutual funds, and ETFs are available for investment by the public. Private investment offerings include hedge funds, private equity, venture capital and private real estate funds, and are only available to certain classes of investors. The proposed rule changes impact Greenleaf Trust and our investors, so we are following the developments closely. Below, we summarize the proposed rule changes, the debate about them, and offer our own perspective.

Accredited Investor Rule: Background and Definition

In 1933, Congress passed the Securities Act, now commonly known as the 1933 Act. This Act requires companies that offer or sell their securities to register the securities with the SEC. The registration process can be very time-, labor- and data-intensive. Many companies prefer to avoid this challenging process. As a result, many companies rely on Rule 506 of the Act to gain an exemption from having to register their securities. Rule 506 is only available if the companies only offer the securities to "accredited investors." Privately held investment companies such as hedge funds can rely on a similar exemption from registering under the Investment Company Act of 1940. Again, this exemption is only available if they solely offer their securities to accredited investors and keep their fund to a limited number of investors.

Who qualifies as an accredited investor and why? An individual qualifies generally as an accredited investor if they have either the wealth or income from which they can be inferred to have the financial resources and sophistication to understand and tolerate the heightened risks associated with private, unregistered offerings.

Qualifying as an Accredited Investor As an Individual	
Wealth	Income
Ownership of net investment assets of at least $1,000,000 excluding one's home	Earned $200,000 solely or $300,000 jointly with their spouse in each of the past two years

"An individual qualifies generally as an accredited investor if they have either the wealth or income from which they can be inferred to have the financial resources and sophistication to understand and tolerate the heightened risks..."

Changes to the Accredited Investor Rule, continued

Institutions or other entities that are specified in the current accredited investor definition generally qualify as an accredited investor when their total assets exceed $5,000,000.

Major Changes Proposed

According to the SEC proposal from December 18, 2019 titled "Amending the 'Accredited Investor' Definition", the purpose of the new proposed rules are "to identify more effectively institutional and individual investors that have the knowledge and expertise to participate in our private capital markets and therefore do not need the additional protections of registration under the Securities Act of 1933." The net effect of the proposal will be to expand the number of investors who are able to invest in private offerings. The major changes to the accredited investor definition are as follows:

"The major changes to the qualified institutional buyer rule have the same impact, [allowing] more entities to invest in the large and growing market for unregistered bond offerings."

- Inclusion of a new "professional knowledge" criterion for natural persons with appropriate professional knowledge, experience or certifications to invest in private offerings. Additionally, "knowledgeable employees" of a company making a private offering will be provided the status of accredited investor with respect to that offering.
- Creation of a "catch-all" category of investors that includes any entity owning "investments" in excess of $5 million.
- Addition of "family offices" with at least $5 million in assets under management as well as any "family clients" the family office has, regardless of the individual family client's assets.

Additionally, the rules proposal seeks to update the definition of a qualified institutional buyer, adding a few specific entity types as well as creating a "catch-all" category for entities for the purpose of investing in private markets.

Perspectives on Rule Changes

In reviewing the comments submitted to the SEC on the proposal, there seems to be a broad consensus in favor of some of the proposed changes. In particular, the "catch-all" rules for adding entities are intended to capture certain entities such as tribal entities and certain governmental units that many people agree should have access to private investments. The major changes to the qualified institutional buyer rule have the same impact, with several commenters indicating that this change allows more entities to invest in the large and growing market for unregistered bond offerings.

There also appears to be healthy support for the concept of the "professional knowledge" change, with the debate that exists appearing to be over what criteria to use to indicate sufficient financial sophistication. The SEC's current proposed guidelines for qualification are based primarily on whether an individual holds the Series 7, 65 or 82 licenses issued by FINRA. This seems to be a relatively straightforward approach based on accepted and transparent criteria for gauging such sophistication.

Despite some agreement on several of the proposed changes, there remains some strong criticism. Some of the loudest is from those who argue that the rule changes weaken investor protections represented by the current accredited investor definition.

There is also very vocal criticism from a different angle: some commenters feel that the SEC is not going far enough in relaxing the accredited investor rules and that significantly more people should have access to private alternatives. Many of these commenters are industry participants with a vested interest in expanding the pool of potential private security investors. There are also some who argue it is simply unfair that only the wealthy may access private markets, which they view as offering investment opportunities that are superior to those available in public markets.

Greenleaf Views on the Proposed Changes

We agree that the accredited investor rule needed a fresh look to address some gaps and inconsistencies with other related rules. Amongst the major changes, the proposed change to allow trained and experienced investment professionals to be considered accredited investors seems sensible. We believe there are some areas of opportunity in private markets, and when investors are able to understand and bear the risks involved, we generally would hope that investors would have the ability to participate.

However, we find it noteworthy that the major investor advocacy groups that have weighed in on the rules changes are opposed to major changes. They note that this bright line represented by the current accredited investor definition, while perhaps a bit of a blunt tool, has worked well to protect less sophisticated investors from the types of fraud that have befallen some private market investors.

Indeed, most investors have difficulty properly assessing private investment opportunities. There are many who do not have a professional advisor like Greenleaf Trust who strives to work "from the client's side of the desk" to assist them in their assessment. We note that a more significant expansion of the pool of eligible accredited investors might include those who are more susceptible to abuse. As a result, we hope the

"We note that a more significant expansion of the pool of eligible accredited investors might include those who are more susceptible to abuse. As a result, we hope the SEC will move cautiously and err on the side of investor protection…"

Changes to the Accredited Investor Rule, continued

"...the debate around these rule changes highlights the fact that rules and laws do not perfectly contemplate every situation facing investors."

SEC will move cautiously and err on the side of investor protection when changing any rules.

Ultimately, the debate around these rule changes highlights the fact that rules and laws do not perfectly contemplate every situation facing investors. Investors will always bear the final responsibility in deciding how to invest their wealth. As a result, investors are always well-served to take a step back when contemplating an investment and to ask themselves a couple questions:

- Do I feel comfortable that I understand the major risks of the potential investment, and
- Is the potential investment sized appropriately so that I could suffer significant losses on it without compromising my ability to meet essential financial goals?

If you have trouble answering these questions, then you should seek out a trusted third party advisor to help guide you through your decision, regardless of what anyone else thinks of your wealth or sophistication.

As the proposed changes evolve, we will continue to evaluate the availability and appropriateness of private investment offerings that may help you reach your financial goals. If you have any questions or would like to discuss this content further, please contact a member of your dedicated client centric team.

mywealth by Greenleaf Trust

Michal Mikrut
Senior Wealth Management Associate

Welcome to the inaugural issue of mywealth tips, tricks, and tutorials! Greenleaf Trust offers multiple tools to enhance the client experience. Which one are we most excited about? mywealth!

In this issue we'll take a tour of the mywealth platform and how it plays a role in the management and implementation of your comprehensive wealth management plan.

Simplified & Organized Holistic Wealth Management

Within a single website, you have the ability to connect all of your investment accounts, assets, and liabilities for a comprehensive and holistic picture of your wealth. Through our mywealth holistic wealth planning tool, you can monitor and organize your wealth within a safe and secure online portal, serving as your personal financial website. mywealth offers the following capabilities to assist you in organizing and simplifying your financial life:

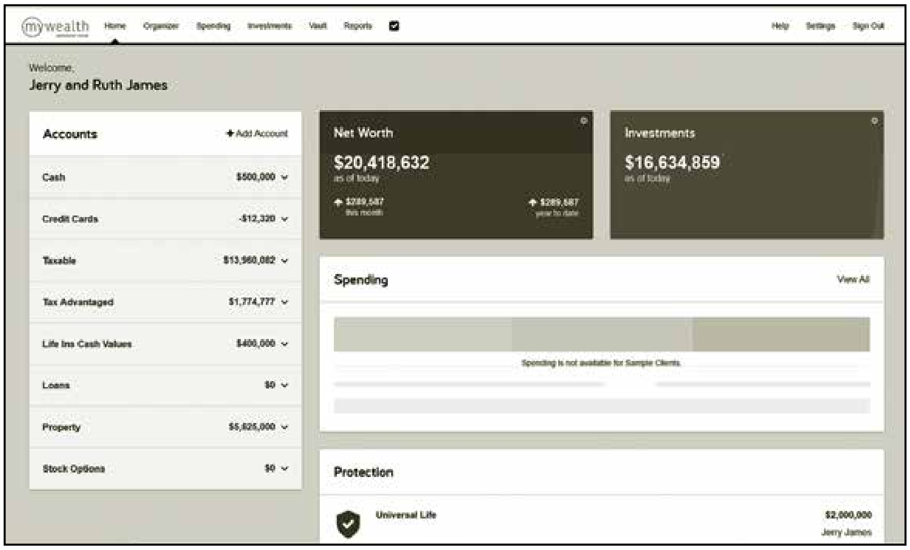
- AGGREGATION: A consolidated view of all your accounts and investments (including those outside of Greenleaf Trust such as checking and savings, credentials, etc.) will give you a real-time complete financial picture on any device at any time.
- DASHBOARD: View of all your assets and liabilities on a consolidated basis, updated daily.
- REPORTING: Develop interactive charts, customized reports, and detailed summaries for all of your holdings.
- SPENDING: Track spending habits and monitor your personal cash flow.
- BUDGETS: Create budgets and keep track of your progress toward your spending goals.
- DOCUMENT VAULT: Unlimited access to a secure electronic document storage portal for your private records such as trusts, wills, tax returns, insurance records, birth certificates, and other identification documents.
- ALERTS: Email and mobile phone alerts to empower you to monitor the activity across all of your accounts.

> "Within a single website, you'll have… a comprehensive and holistic picture of your wealth."

mywealth, *continued*

Website Overview

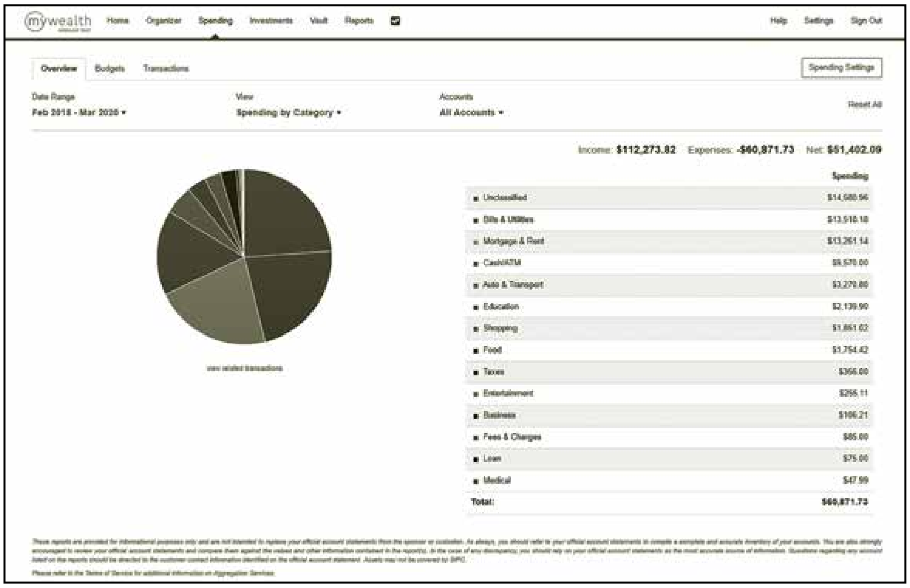
Your HOME page is a living snapshot of your financial wellbeing. The HOME page is a high-level view of your financial information. This page is divided into separate tiles that represent the information contained within each section of the application.



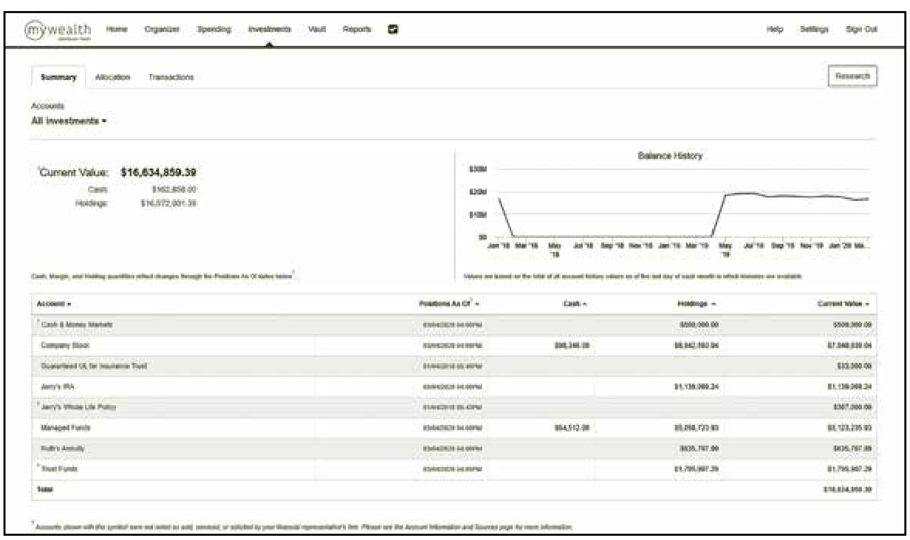
The ORGANIZER will help you to consolidate all of your important financial information into one place. Click the different options to add and edit the related information. Here you can add your accounts, financial data, people, and property. The information included here will be used to populate other areas of the tool, including the HOME page.

"Your HOME page is a living snapshot of your financial wellbeing."

The SPENDING tab can give you a clear view of income and expenses each month. If there is no information on this screen, it's because a bank account or credit card needs to be added to "Accounts" in your Organizer. SPENDING includes Overview, Budgets, and Transactions tabs. Spending categories can be made custom to your needs. While this information defaults to private, meaning it is not shared with your client centric team, you also have the ability to share this information so that your client centric team can assist with budgeting if desired.



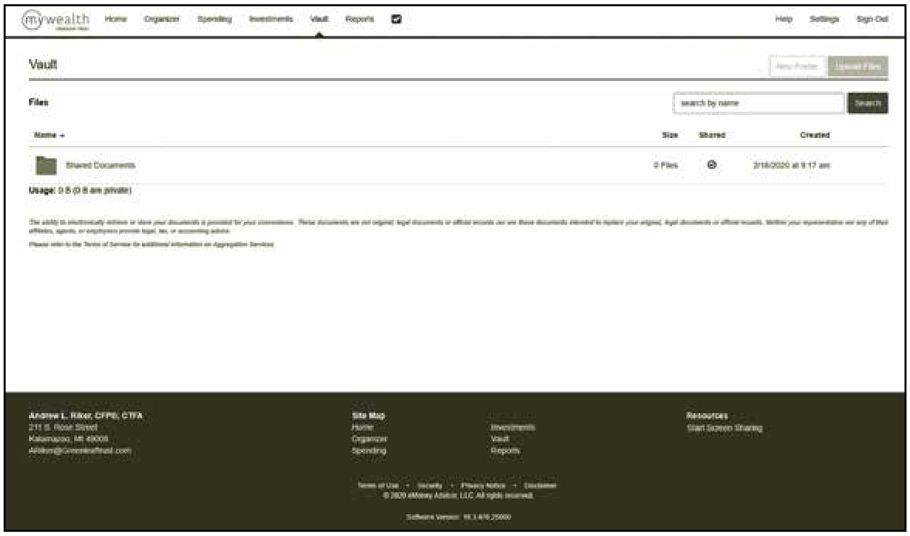
The INVESTMENTS tab is made up of four components: Summary, Allocation, Analysis, and Transactions. These will provide you with an overall view of your investments as well as the ability to drill into individual accounts & asset breakdowns.



"The SPENDING tab can give you a clear view of income and expenses each month."

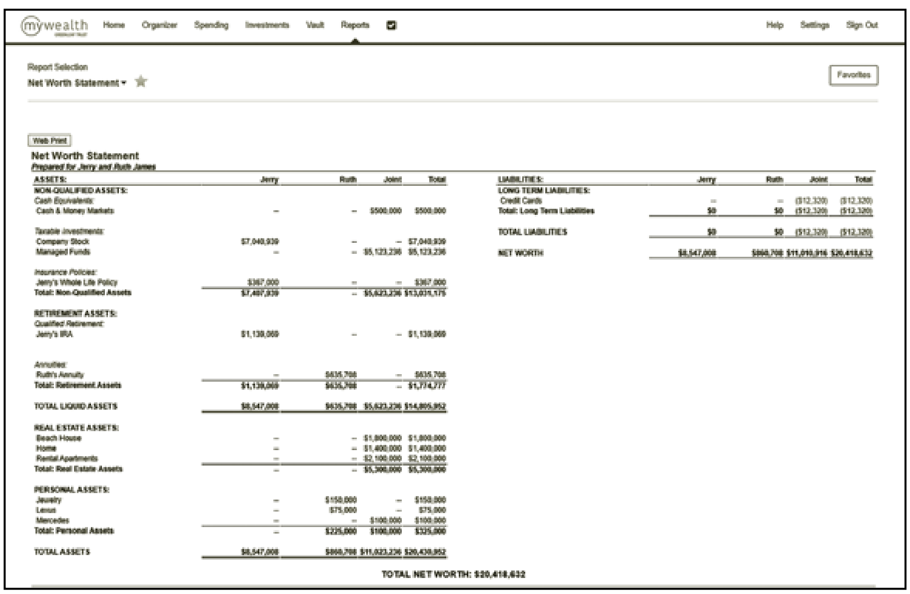
mywealth, *continued*

The VAULT tab is a repository in which files are stored by your team for your review, and where you can store files. To upload a file, click the Upload Files link. The My Documents folder is hidden from your team (as shown below). If you want to share a document with your client centric team, upload it into the SHARED DOCUMENTS folder.



"The VAULT tab is a repository in which files are stored by your team for your review, and where you can store files."

And lastly, the REPORTS tab provides you with a series of reports about your financial situation. There is a plethora of information that is available to you as a Greenleaf Trust client. These reports range from net worth statements, all the way to investment allocation reports.



Why is Data Aggregation Important?

We use data aggregation to consolidate your accounts into one view on your Personal Financial Website – like your checking account, outside 401(k), and investment account balances — so you can easily monitor your finances, and we can create an accurate financial plan based on real-time data.

Working with your client centric team to populate your personal financial website with accurate data will help them better manage your holistic wealth and implement your plan on a much more comprehensive level.

Questions? As always, simply reach out to any member of your client centric team and we would love to assist with making the most of your personal financial website through mywealth by Greenleaf Trust.

"There is a plethora of information that is available to you as a Greenleaf Trust client."

The Importance of Rebalancing

Natasha L. Tamminga
Participant Services Administrator

When it comes to retirement savings, most people know the basic principle: one should strive to save as much as they can, as early as they can. In addition, a high level of importance is placed on selecting the right combination of investments based on risk tolerance to assist in reaching one's retirement income goals. Rebalancing is another important aspect of managing a retirement account effectively, but it is something that many participants fail to do. Experts estimate that 80% of people do not rebalance their retirement accounts. Failing to rebalance a retirement account can cost the account holder earnings, as well as increasing their risk exposure over time. For these reasons, it is important to make rebalancing a regular part of retirement account review and maintenance practices.

So what exactly is rebalancing? Rebalancing is the act of selling or buying investments to ensure that a retirement account's asset allocation percentages remain consistent. One's asset allocation reflects their personal risk tolerance, meaning how much of the account they have invested in equities (high risk) versus how much they have invested in fixed income or money market (lower risk). It is likely that the investor took some time to consider their retirement goals upon establishing their retirement account. Based on an individual's retirement goals, an asset allocation strategy for their investments was likely created. For example, a moderately aggressive portfolio might contain 70% equity exposure and 30% fixed income exposure. The primary objective of rebalancing is to maintain a retirement account's asset allocation strategy and to control risk over the long term.

"Rebalancing is the act of selling or buying investments to ensure that a retirement account's asset allocation percentages remain consistent."

For retirement plan participants invested in an actively managed investment option like a Target Date Fund or a Greenleaf Trust risk-based model, rebalancing is unnecessary as the fund managers rebalance those investments automatically. For participants who chose to create their own custom investment strategy, rebalancing is an important part of keeping their investment strategy on track.

Rebalancing one's portfolio helps the investor keep the level of risk in a portfolio aligned with the desired investment strategy. Rebalancing can feel a little counterintuitive, since you are selling funds that have been performing well (but are now making up a higher percentage of your portfolio than you intended), and putting those dollars into funds that have not performed as well (but are now making up a smaller amount of your portfolio than you intended). It is important to keep in mind that failing to rebalance allows the investment class that has been performing well to become larger, which may eventually change your risk profile.

The act of rebalancing assists in keeping your investment strategy on track, as well as allowing you to "buy low and sell high."

The following example illustrates why rebalancing is important to maintaining allocations.

In 1976, an investor opened a retirement account. They initially allocated 60 percent of their portfolio to equities and 40 percent to bonds. The investor never rebalanced their account. Today the portfolio contains nearly 85 percent equities and only around 15 percent in bonds because stocks posted higher returns than bonds over the years the account was open. Though the investor's account posted strong returns, the profits came at a higher risk level than what the investor originally selected when allocating their account. Furthermore, by allowing their allocations to shift to a more aggressive stance due to lack of rebalancing, the investor put their retirement savings at risk of substantial losses should the equity market hit a slump.

Experts recommend rebalancing at least once, but not more than four times per year. There are different thoughts to when the best time is to rebalance. One popular strategy is to rebalance once a year or once every quarter on a set date. Another strategy is to rebalance any time one notices that their investment allocation is skewed more than 5% from the desired risk level allocation. When investors get in the habit of regularly rebalancing their retirement accounts, they should only have to make modest adjustments. While it can be difficult to think of selling portions of investments that have been performing the best, having a set strategy for rebalancing can help to distance oneself from emotional reactions to the market.

Rebalancing is an important investment management tool and is one that retirement plan participants should be sure to utilize in the process of investing for their retirement, particularly if managing their own custom portfolio. As with all tools, proper use is the key to ensuring success. Investors should make a plan for how and when to rebalance their account and set requisite reminders to do it! Greenleaf Trust is here to help, so do not hesitate to contact us with any retirement plan questions.

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Bradley S. LaTour, J.D., CTFA
Vice President
Senior Trust Relationship Officer

“Soft dollar remuneration… is the practice of overpaying for trade execution, in exchange for which a broker-dealer provides research and other benefits to the advisor.”

Is Soft Dollar Remuneration a Conspiracy Theory?

Conspiracy theorists seem to lurk around every corner these days, imparting their less-than-logic-backed views and offering little evidence. The complex world of finance and managed assets provides ample opportunity for cynics and simpletons alike to assert similar claims — that institutions have rigged the system against them — often crying speculatively, “my broker makes more money for himself than he does for me!” Aiding their argument is an array of mysterious terms used by industry insiders such as “imputed interest,” “negative correlation,” and “disintermediation.”

When investors comprehend a difficult financial concept more fully, instead of yielding to the first flattering tongue that explains the term, they can better decide with whom they will entrust their family’s wealth. This article will attempt to clarify one of those complex financial terms - “soft dollar remuneration.”

Does Greenleaf Trust use soft dollars?

No. Greenleaf Trust does not accept any form of soft dollar remuneration and, thus, remains unclouded by potential conflicts of interest. Our asset management process, developed by our well-resourced in-house research team and grounded in an investment policy to assure a disciplined and unbiased approach, keeps our focus on the best interest of our clients.

What is soft dollar remuneration?

Remuneration is simply money paid for a work or service. Soft dollars are the benefits provided to an asset manager by a broker-dealer as a result of commissions generated from financial transactions executed by the broker-dealer for client accounts or funds managed by the asset manager. Wow, really? Say that again in plain English, please. Okay, it is the practice of overpaying for trade execution, in exchange for which a broker-dealer provides research and other benefits to the advisor.

Every advisor begins with an industry-imposed standard (sometimes at a fiduciary level) to seek the best price, execution, and relationship with brokers for their clients. Advisors are always free to purchase additional research and benefits directly for their clients (with hard dollars) or they can receive those services through trading arrangements with broker-dealers (with soft dollars). Make no mistake, there is no escaping the real cost of the research – it just depends on who is paying the bill.

A common example to illustrate the use of soft dollars would be if you decided to rent office space in a building for, say, $5,000 per month. You need an industrial printer that would normally lease for $500 per month. As the owner, you can choose to pay the lease cost with cash (hard dollars) and perhaps see your profit decline by that amount. You might also be offered an arrangement with the leasing company where they would credit you all or some of the $500 on the lease (soft dollars) if you agree to purchase all your ink cartridges through them at a higher than market price. The real cost for both approaches is $500 per month. Your business can either realize less profit by paying the expense directly or pass the cost on to their clients through the soft dollar arrangement

How often is it used and by whom?

One of the challenges with soft dollar activities is the blurred definition – what exchange of services actually constitute soft dollars?

In 2017, the Securities and Exchange Commission reported that 42% of financial advisors and 40% of funds engaged in soft dollar activities. This is somewhat reduced from 2010 when another study found that 40% of total brokerage commissions involve soft dollars and 75% of mutual funds used soft dollars (Gao and Livingston, "Brokerage Commissions: High Costs of Owning Mutual Funds," 2010).

While soft dollar practices have been around for decades, regulators continue to uncover disclosure and compliance issues with regard to investment advisors utilizing such arrangements. This is probably why the European Union, following the 2008 financial crisis, began cracking down on the use of soft dollars and eventually banned their use. In the 14 months since the ban, it was noted by Andrew Bailey, the chief executive of the Financial Conduct Authority, that the "vast majority of managers now fund research out of their own pockets instead of using client funds."

Will the EU ban on soft dollars have an effect on the practice in the US? Hard to tell, but while the brokerage community remains divided on the issue, the SEC is listening. The change could be coming sooner than expected.

"…the European Union, following the 2008 financial crisis, began cracking down on the use of soft dollars and eventually banned their use."

What is the argument for using soft dollars?

With increased scrutiny from regulators and the trend away from such practices, an investment manager purporting to offer trusted fiduciary responsibility and transparency had better have a good reason to engage in soft dollar relationships.

Soft Dollar Remuneration, continued

The prevailing reason put forth by advisors is that they will have access to better research for their clients. Critics of this justification often charge that the soft dollars are used for more than just research, including computers, travel or other activities that have nothing to do with client services. One SEC study found that 28% of soft dollar benefits were being used for non-research products and services by the advisors. Whatever the allocation, advisors could also simply pay for the research from fees already being collected.

Advisors also rely on the fact that such arrangements are properly disclosed. Even if disclosure regulations are stringently followed, the exact details of the soft dollar use and their impact on the investor can be difficult to discern. In fact, Whitney Tilson at the Motley Fool wrote, "the general counsel of mutual funds giant Fidelity was exactly right when he admitted that soft dollar payments are among the 'least visible' and 'least understood' expenses for investors."

> "In soft dollar arrangements, the brokerage commissions are generally higher than they would normally be and, over time, investment performance can suffer by the higher cost."

What is the argument against using soft dollars?

In soft dollar arrangements, the brokerage commissions are generally higher than they would normally be and, over time, investment performance can suffer by the higher cost.

These arrangements can also create incentives for a manager to conduct activities that are not in the client's best interest – overpaying for trades and research or trading more often than is necessary. Even though disclosed, a typical disclosure notice might read as follows: "This arrangement also may create an incentive for the advisor to select a particular broker to execute a trade based on the advisor's interest in receiving such research at a reduced cost." In such an environment, how can an investor know with certainty whether or not soft dollars contributed to a particular trade in their account?

Soft dollars are not easily determinable nor are they equal among investment managers. The investor never knows what portion of their transaction costs are applied to the soft dollar services or their actual investment. Higher cost trades drag on returns and often the investor remains in the dark.

Summary

The investing public tends to have a negative perception of soft dollar arrangements. They are difficult to understand and people prefer that advisors pay expenses out of their profits (i.e., from client fees) rather than from the pockets of investors. Now more than ever, investors are seeking absolute trust in their financial professionals.

Greenleaf Trust strongly believes in aligning ourselves with our clients' best interest. We avoid potential conflicts of interest by refusing soft dollar remuneration or fee rebates from any of the investments in our client portfolios. By maintaining an objective, transparent and conflict-free standard, our clients are better served.

So, is soft dollar remuneration a conspiracy theory? Like most conspiracies, it depends to whom you put the question. However, the growing movement to curtail or eliminate such practices would indicate that investors are becoming more aware of their options, especially in an era of increased transparency, and are making decisions accordingly.

"Greenleaf Trust does not accept any form of soft dollar remuneration and, thus, remains unclouded by potential conflicts of interest."

Stock Market Pulse

Index	2/29/2020	Total Return Since 12/31/2019
S&P 1500	674.73	-8.63%
Dow Jones Industrials	25,409.36	-10.55%
NASDAQ	8,567.37	-4.31%
S&P 500	2,954.22	-8.27%
S&P 400	1,814.00	-11.86%
S&P 600	884.78	-13.21%
NYSE Composite	12,380.97	-10.67%
Dow Jones Utilities	839.96	-3.92%
Barclays Aggregate Bond	2,308.64	3.76%0

P/E Multiples	2/29/2020
S&P 1500	19.5x
Dow Jones Industrials	18.0x
NASDAQ	33.0x
S&P 500	19.4x
S&P 400	19.1x
S&P 600	22.2x

Key Rates

Fed Funds Rate	1.50% to 1.75%
Tbill 90 Days	1.25%
T Bond 30 Yr	1.68%
Prime Rate	4.75%

Current Valuations

Index	Aggregate	P/E	Div. Yield
S&P 1500	674.73	19.5x	2.04%
S&P 500	2,954.22	19.4x	2.04%
Dow Jones Industrials	25,409.36	18.0x	2.56%
Dow Jones Utilities	839.96	21.4x	3.08%

Spread Between 30 Year Government Yields and Market Dividend Yields: -0.36%

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