GREENLEAF TRUST

Perspectives

A Greenleaf Trust Newsletter

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Michael F. Odar, CFA®
President
Chief Executive Officer

How We Work

When Netflix was about the same size (~200 people) as Greenleaf Trust in the early 2000s, Patty McCord, former chief talent officer at Netflix, and Reed Hastings, the founder of Netflix, thought they should be more articulate with their culture if their rapid growth plans materialized. So, they sat down along with other members of the management team and began writing down the behaviors they admired most in teammates. They were purposeful in making a distinction between behaviors and values. They felt that values are aspirational, but behaviors are what people actually do.

What came out of their meeting became known as their Culture Deck. The Culture Deck originated as a PowerPoint presentation that spelled out the key principles of Netflix's culture. The internal document was primarily meant for review by new hires but also to guide discussions about their expectations on conduct and performance as their growth began to pick up pace. It was to become a living breathing document meant to evolve as the company evolved. As they grew, the deck became thought of as their "operational framework" around the belief that culture is a strategy about how you work.

The story behind the creation of the Culture Deck intrigued me and caused me to reflect on our workplace culture. Our workplace culture is the air we breathe every day at Greenleaf. It is literally how we work together. It exists in our behaviors and how we treat each other. We can all speak to it, but it's not written in a document. What if we asked our teammates what were the behaviors they admired most in teammates? Would they collectively describe how we treat each other and how we actually work together?

At our company-wide strategic planning meeting last November, since I had everyone in the same room, I decided to ask them about the behavior they admired most in teammates. Their responses were written down on sheets of paper that were then held high for all their teammates to read. The responses validated what we all can feel at work every day.

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How We Work, continued

The adjectives used transcended across office locations. They had foundational roots in our drives and values, relationships, and work styles. They described how we value each other, how we support each other, how we connect with each other, and how we rely on each other. Most of all, they described how we work. The top five most common adjectives used by teammates to describe the behavior they admire most in teammates were kindness, honesty, supportive, reliable, and helpful.

That's a workplace culture I am proud to be a part of.

Economic Commentary

Nicholas A. Juhle, CFA®
Chief Investment Officer

Last month, my colleague Chris Burns and I traveled around the state to deliver our 2023 Year-in-Review and 2024 Outlook seminar. We presented in six markets starting in Grand Rapids before heading to Bay Harbor, Traverse City, Midland, Birmingham, and finally, Kalamazoo. It was a pleasure to host and engage with nearly 400 of our clients and friends. If you were among those in attendance, thank you for joining us. If you weren't able to be there, a video recording of our Kalamazoo presentation is accessible on our website.

We're off to a decent start in 2024. If you believe the notion that "as goes January, so goes the year," the so-called January Barometer suggests we may be in for a positive year for stocks. The S&P 500 returned nearly 2% for the month of January. Dating back to 1950, full year returns were positive 93% of the time when returns were positive in January with an average full year gain of almost 23%. Unfortunately, correlation and causation are two different things, but we'll take what we can get.

Overall, in the first month of the year, global equities gained 0.6%. Domestic large caps added 1.7%, developed international stocks added 0.6% and emerging market stocks declined 4.6%. On the other hand, fixed income categories maintained a narrow range of -0.3% to +0.2% as yields edged higher.

As was the trend throughout 2023, the US economy again exceeded expectations in the fourth quarter with annualized real GDP growth of 3.3%, trouncing economists' forecasts of 2.0%. At the beginning of 2023, the median forecast for full year GDP growth was +0.5% with economists predicting a 65% probability of a recession – one of the highest probabilities we've seen outside of an actual recessionary period. As it turns out, the US economy experienced full year growth of 3.1%, while anxiety about the prospect of a recession eased.

"As was the trend throughout 2023, the US economy again exceeded expectations in the fourth quarter with annualized real GDP growth of 3.3%, trouncing economists' forecasts of 2.0%."

Any concerns over a cooling labor market were squashed with the January jobs report which showed a surge in payroll additions to 353K — the most in twelve months and widely exceeding expectations. In addition, December job gains were revised to 333K from 216K originally reported. The unemployment rate was unchanged at 3.7% marking 24 consecutive months below 4% and wage gains accelerated meaningfully month-over-month and year-over-year. Overall, the report highlighted a labor market that has been instrumental in powering consumer spending and economic growth, but continued above-trend hiring and wage growth could challenge Fed efforts to reduce inflation and might serve to extend the timing of future rate cuts.

Speaking of inflation, December data, reported in January, showed the

Economic Commentary, continued

"Over the last year and a half, Fed officials have made significant forward progress in their efforts to reduce inflation… without upending the labor market."

Consumer Price Index (CPI) rose at 3.4% (year-over-year), accelerating from 3.1% in November and coming in above expectations of 3.3%. While this outcome remains higher than policymakers (and consumers) would like, it's significantly improved from the June 2022 peak of 9.1% and the December 2022 level of 6.5%. At +6.2% year-over-year, shelter costs decelerated slightly from +6.5% in November and a peak of 8.2% in March. We continue to keep a close eye on shelter costs, which represent nearly one-third of the CPI basket and tend to impact the index with a lag.

Over the last year and a half, Fed officials have made significant forward progress in their efforts to reduce inflation and they have managed to do so without upending the labor market. While the monetary policymaking environment remains tenuous, the discussion for this cycle has turned from the prospect of additional rate hikes to the timing and extent of potential rate cuts. As expected, policymakers maintained the Federal Funds Rate target at 5.25%-5.50% following their January meeting. Investors are currently pricing in five rate cuts in 2024 (down from six at the beginning of the year). However, Fed projections, provided in December, call for three cuts this year and January commentary seemed to suggest Fed officials are in no rush to loosen policy.

As always, we look forward to sharing our views as we navigate the first quarter and the balance of 2024 and we encourage investors to lean on discipline and the benefit of a long time horizon during periods of uncertainty. On behalf of the entire team, thank you for allowing us to serve on your behalf.

Build It With the End in Mind

Considerations for Building and Transitioning the Family Business

Karen A. McNish, J.D., CTFA
Vice President
Senior Trust Relationship Officer

I've often thought that the process of building a business from the ground up is akin to giving birth and raising a child. In the daily challenge of raising a child, parents are laying the groundwork for the inevitable moment when their child will venture into the world to carve out their own identity. They anticipate that day, filled with pride and a hopeful heart. They trust the daily lessons they've imparted will shape their children's choices and look forward to seeing the magnificent things they will accomplish on their own.

Similarly, business owners face daily challenges while building and growing a business that at some point may need to carry on activities without them. This is especially important when the business represents a significant portion of the family wealth, or is providing a means of ongoing financial support to family members. With the best intentions, many business owners may lose sight of the end while struggling to navigate the day-to-day challenges of supply chain disruption, finding qualified employees, inflation, and customer retention.

I'd like to suggest that incorporating the following activities while working to build a business will increase the chance of successfully maximizing wealth, and the opportunity to have the business succeed without you!

1. **Start early to identify and groom potential successors within the family or among key employees.** Establish clear roles for these individuals and communicate expectations. You will potentially learn more about their true capabilities and desires much earlier in the process, giving you greater flexibility in the future.
2. **Open and transparent communication is vital.** Discuss a potential transition plan with all family members involved. Prepare a communication plan for those family members who aren't involved as there may be unspoken expectations which could cause problems in the future.
3. **Know what your business is worth.** Determining the fair market value of the business is critical to ensure a fair deal during a sale, or in the event you intend to provide an equitable distribution to family members who aren't involved in the business.
4. **Surround yourself with good advisors.** Engage legal and financial professionals with expertise in business succession. They can guide you through the legal complexities, tax implications, and financial considerations associated with the establishment and transition.

"Start early to identify and groom potential successors within the family or among key employees."

Build It With the End in Mind, continued

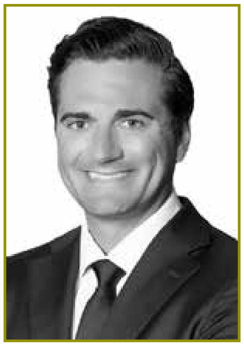
5. **Evaluate the business structure.** Consider whether the current business structure is optimized for tax efficiency, as well as aligned with the eventual goals of the transition.
6. **Develop a solid estate plan.** Develop a comprehensive estate plan aligned with your family goals. This may include a buy-sell agreement, life insurance, trusts, wills, durable powers of attorney and advance health care directives.
7. **Consider how the transition will feel to customers and employees.** Develop strategies to ensure a seamless transition that maintains business continuity, preserves relationships, and enhances customer and employee confidence.
8. **Build financial stability.** Work towards increasing the financial stability of the business. Address any outstanding debts via thoughtful planning, streamline operations, and optimize financial performance to enhance the attractiveness of the business to potential buyers or family members.
9. **Practice good financial recordkeeping.** Due diligence during a sale will be made much easier if accurate and up-to-date financial records are available. This documentation will also be crucial to family members and key employees who may need to unexpectedly pick up where you left off.
10. **Acknowledge and address emotional considerations.** Understand that family dynamics can play a significant role in any business transition. Acknowledge these issues and openly discuss expectations and concerns to avoid problems down the road.
11. **Invest in professional development for key employees and family members.** On-the-job training and formal education are important; however, assigning a significant project to a key employee can be equally valuable, potentially revealing perspectives and angles you hadn't thought of!
12. **Plan for change.** While it can be quite satisfying to establish a business succession plan, know that life happens! As your family and the business evolves, your strategically crafted succession plan will be the foundation from which you can pivot when unexpected events occur. Therefore, I believe good planning is never wasted.

"Consider how the transition will feel to customers and employees. Develop strategies to ensure a seamless transition…"

It is important to note that the above considerations are not ranked in order of importance, but intended to be considered overall, and executed along a continuum that is best suited to your specific circumstance. Ultimately, you should trust that the daily efforts put forth, and the lessons you've imparted will shape the business legacy to which you've given birth.

Navigating Election Year Volatility

Insights into Market Trends and Strategies for Long-Term Investors



Mike Laske
Wealth Management Advisor

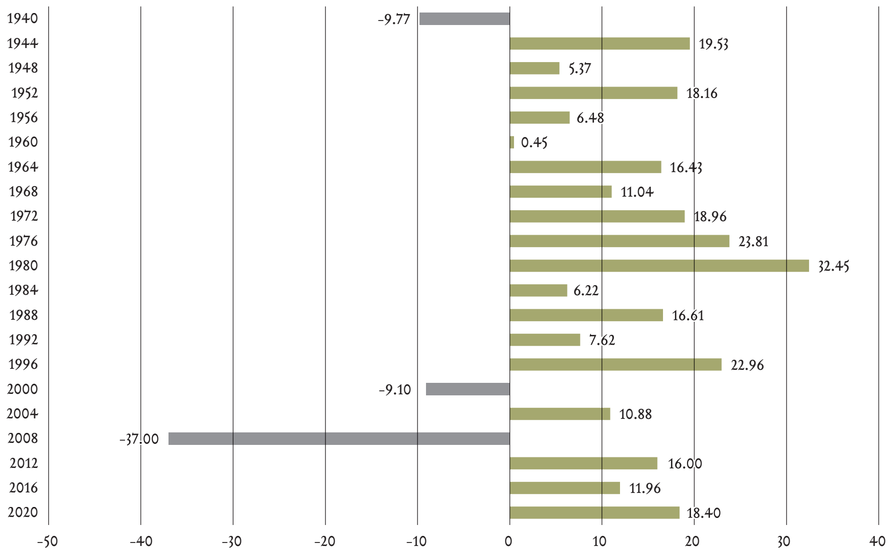
The performance of investment markets during election years can vary widely, and it's essential to note that many factors influence market trends. However, historical patterns suggest that markets often experience increased volatility in election years.

Some of our general observations include:

1. Initial Uncertainty: In the months leading up to a presidential election, the markets tend to exhibit heightened volatility due to uncertainty about the potential policy changes that could result from a new administration.
2. Policy Impact: The market's reaction also depends on the economic policies proposed by the current, and potentially new, administrations. Certain sectors or industries may benefit from new policies, while others may face challenges.
3. Long-Term Trends: While presidential elections can create short-term fluctuations, the performance of investment markets is influenced by various economic factors, global events, and monetary policies over the long term.

> "… historical patterns suggest that markets often experience increased volatility in election years."

S&P 500 Index Total Return (%) in Election Years



Source: FactSet financial data and analytics

In past election years, the S&P 500 stock market index has seen more positive performance than negative. Since 1940, 18 of the 21 years (86%) provided positive performance. The S&P 500 has averaged a +9.9% gain

Navigating Election Year Volatility, continued

during US presidential election years, which is below the average annual return (12.5%) for the S&P 500 during all years since 1940. It is worth noting that the S&P 500 has not declined during a presidential re-election year since 1940.

In 2024, we face a new set of uncertainties that will challenge markets, and the months leading up to the election may prove to be unpredictable and volatile. We expect markets to ebb and flow as the Federal Reserve tries to curb inflation and geopolitical tensions continue to add an element of uncertainty. However, while there are areas of caution, we see a broad range of opportunities across the equity market. Additionally, bond yields remain high. The last three years saw market returns of +/- 15-20% each year, but we are cautiously optimistic and expect markets to deliver more typical returns going forward.

> "… a well-diversified portfolio can help investors stay disciplined during market fluctuations, which tend to increase during presidential election years."

Individual election years may deviate from historical patterns, as each election cycle has its own unique circumstances. At Greenleaf Trust, we think it's crucial for investors to diversify their portfolios and consider a long-term perspective, rather than make decisions based solely on election-related events.

The importance of (1) diversification in your portfolio and (2) patience to stay the course.

Diversification is a fundamental strategy in investment management that involves spreading investments across different asset classes, industries, or geographic regions to reduce risk. The importance of diversification in an investment portfolio lies in its ability to lower risk through several key mechanisms.

1. Risk Management: Different asset classes and investments often react differently to various economic conditions and market events. By holding a diversified portfolio, the impact of poor performance in one investment or sector is mitigated by the potential positive performance of others. This helps reduce the overall risk of the portfolio.
2. Minimization of Concentration Risk: Concentrating investments in a single asset or asset class exposes the portfolio to specific risks associated with that investment. Diversification helps minimize concentration risk, ensuring that the impact of a major event on one investment is limited.
3. Enhanced Return Potential: While the primary goal of diversification is risk reduction, it can also contribute to the potential for better returns. A balanced and diversified portfolio has the opportunity to capture gains from different sources, leading to more consistent and stable long-term performance.

Diversification can also play a role in managing investor psychology. Holding a well-diversified portfolio can help investors stay disciplined during market fluctuations, which tend to increase during presidential election years.

Patience and staying the course are essential virtues for investors aiming to maximize long-term investment returns. Here are several reasons these qualities are crucial.

1. Time in the Market: Successful investing often involves staying invested for the long term. The longer an investor remains in the market, the more opportunities they have to benefit from compounding returns. Patience allows investors to weather short-term volatility and capture the potential for long-term growth.
2. Avoiding Emotional Decisions: Emotional reactions to market events can lead to poor investment decisions. Staying the course involves resisting the urge to make impulsive moves. Patience allows investors to make decisions based on a rational assessment of their financial goals.
3. Long-Term Trends: Markets go through cycles, and long-term trends tend to prevail despite short-term fluctuations. Patience enables investors to focus on the big picture.

In summary, patience is a critical component of a successful long-term investment strategy. At Greenleaf Trust, we build portfolios for the long-term, constructed with business cycles, recessions, and even presidential elections in mind.

"… patience is a critical component of a successful long-term investment strategy."

Jaron Tuttle, QKA®
Senior Recordkeeping Specialist

401(k) Distributions – What Options Are Available Now?

When we think of retirement, we think of reaching that magical age of 65 and living our remaining years on the funds we worked so hard saving. An individual can work for a great company that offers a pension or a 401(k) that is used to save for when they are ready to call it quits and travel off into the sunset in a nice RV. That's what I was always taught to be the retirement dream. The funds in your retirement account were meant for that, to use in retirement.

Universally, a participant can take a distribution from their retirement account for three reasons: termination of employment (including retirement), death, or plan termination. Additional options became available such as an in-service withdrawal (age 59½), hardships and disability. These options are dependent on the plan provisions.

Throughout time, the regulations have been updated allowing for supplementary distribution choices. Many have requirements and/or limitations and are specific to the design of the plan. Several options historically included an early withdrawal penalty if the participant was under the age of 59½.

"Now plan sponsors can allow participants to self-certify for hardship distributions..."

The CARES Act allowed participants to take a distribution if they were financially affected by the COVID-19 pandemic between the period of January 1, 2020 to December 31, 2020. The 10% early withdrawal penalty was waived for these distributions, however, the amount was still taxable income to the participant. The participant must have been directly impacted by COVID-19 to be eligible for the distribution, however no proof was required.

In January 2020, the SECURE Act became effective. The SECURE Acts (both 1.0 and 2.0) drastically changed the qualified retirement world with more than 90 provision changes. Of those changes, there were additional distribution options that became available with qualified retirement plans, many of which allow the participant to bypass the early withdrawal penalty.

Starting with SECURE 1.0, plans were allowed to add distribution options such as Qualified Birth and Adoption Distributions (QBAD). Participants were allowed to distribute up to $5,000 for each child within a one-year period after the birth or finalized adoption. The participant would not incur the early withdrawal penalty on this distribution but would need to include the child on their federal tax return. This option became effective on January 1, 2020.

SECURE 2.0 also expanded on the available distribution options for plan sponsors. Now plan sponsors can allow participants to self-certify for hardship distributions, provide distributions for domestic abuse victims, emergency expense distributions (EPED's), Qualified Long-Term Care Distributions (available after December 29, 2025), Disaster Loss Distributions, and my least favorite, Pension-Linked Emergency Savings Accounts (PLESA). Each of these options has their own requirements and limitations and all but the hardship option allows the participant to waive the early withdrawal penalty.

The new SECURE 2.0 distribution options are just that: options. The IRS does not require a plan sponsor to adopt anything, but the sponsor can pick what they would like to be available to their participants. The final regulations are still in process, but a sponsor can operate their plan to allow these forms of distributions now.

As additional guidance is received, Greenleaf Trust continues to gain more knowledge of the SECURE 2.0 regulations and the various distribution options available. If you have any questions on the requirements or limitations or what may work best for your plan, please contact the Greenleaf Trust Retirement Plan Division, we would be happy to assist you.

"The new SECURE 2.0 distribution options are just that: options. The IRS does not require a plan sponsor to adopt anything..."

Stock Market Pulse

Index	1/31/2024	Total Return Since 12/31/2023
S&P 1500	1,097.99	1.34%
Dow Jones Industrials	38,150.30	1.31%
NASDAQ	15,164.01	1.04%
S&P 500	4,845.65	1.68%
S&P 400	2,732.18	-1.71%
S&P 600	1,265.19	-3.95%
NYSE Composite	16,911.13	0.46%
Dow Jones Utilities	853.04	-3.23%
Barclays Aggregate Bond	2,156.06	-0.27%

P/E Multiples	1/31/2024
S&P 1500	22.6x
Dow Jones Industrials	22.4x
NASDAQ	40.0x
S&P 500	23.3x
S&P 400	17.5x
S&P 600	15.7x

Key Rates

Fed Funds Rate	5.25% to 5.50%
T Bill 90 Days	5.23%
T Bond 30 Yr	4.17%
Prime Rate	8.50%

Current Valuations

Index	Aggregate	P/E	Div. Yield
S&P 1500	1,097.99	22.6x	1.49%
S&P 500	4,845.65	23.3x	1.47%
Dow Jones Industrials	38,150.30	22.4x	1.93%
Dow Jones Utilities	853.04	17.5x	4.11%

Spread Between 30 Year Government Yields and Market Dividend Yields: 2.68%

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