GREENLEAF TRUST

Perspectives

A Greenleaf Trust Newsletter

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Michael F. Odar, CFA®
President
Chief Executive Officer

How We Continue To Work

In February of 2024, I wrote an article for Perspectives entitled How We Work. I wrote about how Netflix's creation of their Culture Deck in the early 2000s when they were around our size (~ 200 people) inspired me to do something similar at our 2023 Strategic Planning Meeting. I gave everyone a marker and colored piece of paper and invited each of them to reflect on and write down a single word that captured the behavior they admired most in a Greenleaf teammate. Like Netflix, I wanted everyone to think about real life behaviors they admire versus values. The thought was that values can be aspirational whereas behaviors are more reflective of how people really act.

The energy in the room was palpable when everyone held their answers in the air and had a chance to see what their teammates wrote. The most frequently chosen words included honesty, trustworthy, integrity, helpful, kindness, respect, supportive, empathy, active listener, positive, caring, reliable, accountable, and dependable.

After people saw the words used by their teammates, their beliefs on how we worked together at Greenleaf Trust were immediately validated. Up to this point, it was just a feeling we all had. Something we mentioned casually to new hires. Now, we actually knew why we worked so well together as a team. The values that we had in common. How we could support each other. What we desired from our relationships with each other. We became compelled to write it down and share it with each other to remind us all what makes us unique in our own words.

So, in 2024 we created a book, In Our Own Words, to memorialize our work culture feelings. The book elaborated on the words we all used to describe how we value each other, how we support each other, how we connect with each other, and how we work together. Each team member also received a framed word cloud in the shape of our company logo. This artwork serves as a daily reminder of the importance of being a valued, supportive, inclusive, connected and committed teammate. As a final touch, a large-scale word cloud will be displayed on the walls of each of our market locations. This installation will greet team members each day, reinforcing the essential qualities that define a great teammate.

Below are excerpts from the four guiding chapters of In Our Own Words.

How We Value Each Other – Our Shared Values:

Honest | *Trustworthy* | *Integrity*

Greenleaf Trust teammates are driven by honesty, trust and integrity. We value the

How We Continue To Work, continued

input other teammates bring to the table. We hold ourselves to a high standard in our work and our relationships with each other.

How We Support Each Other – Our Focus on Others:

Helpful | Willing to Help | Kindness | Respect

We are an inclusive team that acts with kindness and respect towards one another. We are service minded, others oriented and committed to helping our fellow teammates. We work hard together to achieve our goal of premier client service and great company culture.

How We Connect with Each Other – Our Relationships:

Supportive | Empathy | Active Listener | Positive | Caring

We are not machines. We understand that life will have ups and downs, and we support each other during the good times and bad. We have empathy and caring for each other and lay those as the foundation of our relationships. We work in good faith and give each other the benefit of the doubt. Greenleafians look for the positive others bring to the table and actively listen before adding input.

How We Work Together – Our Commitment to Each Other:

Reliable | Accountability | Dependable

As a talent-based organization, we understand the importance of being a dependable resource, accountable for our commitments and reliable when needs arise. We collaborate most effectively when we understand that everyone is committed to achieving collective goals.

"We became compelled to write it down and share it with each other to remind us all what makes us unique in our own words."

Nicholas A. Juhle, CFA®
Chief Investment Officer

Economic Commentary

February is the shortest month of the year, but it was not short on economic developments, from the first estimates of 2024 GDP to corporate earnings reports to new tariff announcements. Let us close the books on 2024, take a quick look at the early indicators for 2025, and then turn our attention to what President Trump calls the most beautiful word in the English language - tariffs.

2024 Wrap-up and 2025 Developments:

The US economy wrapped up 2024 with real GDP growth of 2.8%, slightly below 2023's 2.9%. Growth was fueled by gains in consumer spending, investment, government spending, and exports. Initial estimates for Q1 2025 GDP growth are currently projected at 2.2%, up from 1.9% at year end.

The Federal Reserve maintained its target range for the federal funds rate at 4.25-4.50% in January, as expected, signaling a pause in its rate-cutting cycle. Policymakers continue to weigh a strong labor market against slightly above-target inflation. Non-farm payrolls increased by 143,000 in January, following a revised gain of 307,000 in December, reinforcing a steady, if moderating, labor market picture. The January inflation report showed prices edging higher with the Consumer Price Index (CPI) up 3.0% over the past year, driven by higher auto insurance, shelter, and energy costs.

Corporate earnings are generally exceeding expectations for Q4 2024, supporting equity markets despite broader economic uncertainty. To date, around 75% of reporting S&P 500 companies have delivered positive EPS surprises and over 60% have reported positive revenue surprises. Resilient corporate earnings growth coupled with a more measured Fed should provide a constructive backdrop for markets in 2025 absent an unforeseeable shock or policy misstep.

“Let us close the books on 2024, take a quick look at the early indicators for 2025...”

Tariffs Back in Focus:

Trade policy took center stage in February with US tariffs announced on goods imports from China, Mexico, and Canada with varying implementation dates and negotiation windows. Given all the noise surrounding tariffs, a discussion of this policy instrument is warranted. Simply put, tariffs are taxes imposed on imported goods. Historically, nations have used tariffs for a variety of reasons, including revenue generation, to protect domestic industries, and to influence international affairs. The current statuses of incremental US tariffs are as follows:

- China: On February 4th, US imposes an incremental 10% tariff, China responds with additional tariffs on certain US products, export controls, and regulatory scrutiny of US-based companies.
- Mexico: A proposed 25% tariff is suspended until March 4th; Mexico considered, but did not officially release a schedule of retaliatory tariffs on US goods. Negotiations are ongoing and reports indicate Mexico is motivated to avoid new US tariffs.
- Canada: A proposed 25% tariff is suspended until March 4th; Canada announced a tariff package targeting US goods if the tariffs go into effect. Negotiations are ongoing and reports indicate Canada is motivated to avoid new US tariffs.
- Steel and Aluminum: On March 12th, a 25% tariff will replace current tariffs on all steel and aluminum imports.
- Automobiles, Pharmaceuticals, and Semiconductors: President Trump discussed imposing a 25% tariff on imports of automobiles, pharmaceuticals, and semiconductor chips with details expected to be released in April.
- Reciprocal tariffs: Various federal agencies are preparing reports due in April regarding “non-reciprocal trade arrangements” where trading partners impose tariffs, taxes, or other trade barriers that

Economic Commentary, continued

are not currently matched by US tariffs on that counterparty. The intention will be to determine the equivalent of a reciprocal tariff with respect to each trading partner.

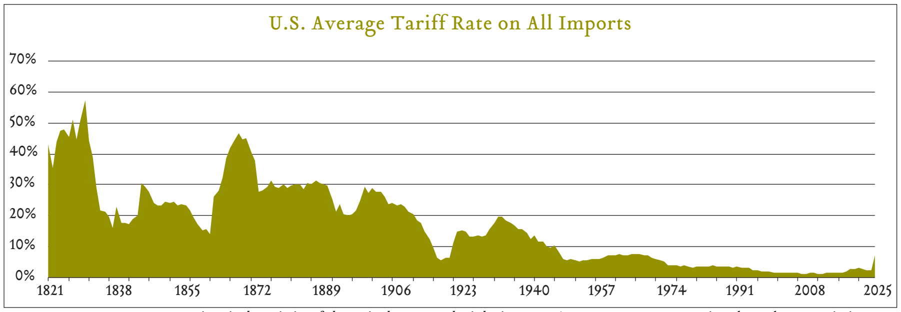
Now let us consider some of the potential consequences of tariffs, accepting the ever-changing nature of the current trade landscape. Economists' consensus are that tariffs generally:

- Increase consumer prices,
- Create a drag on GDP growth,
- Impact FX rates for the domestic currency,
- Lead to higher interest rates,
- Disrupt supply chains and reduce business investment,
- Protect jobs in targeted industries but reduce jobs elsewhere,
- Increase volatility and reduce business confidence, and
- Generate government revenue, but at a cost to economic efficiency.

"Ultimately, the overall cost or benefit of tariffs is a question of diplomacy and governance, not simply an economic matter."

The economic impact of tariffs is a multifaceted issue with wide-ranging implications. Presidents, of course, have considerations outside of just economics and the current administration has shown a fondness for using tariffs as leverage when pursuing policy initiatives. Ultimately, the overall cost or benefit of tariffs is a question of diplomacy and governance, not simply an economic matter.

The Tax Foundation estimates that the proposed tariffs against China, Canada, and Mexico, if implemented, could triple the average import tariff rate to 7%, a level not observed since 1969. Zooming out further, however, makes 7% seem rather small in a historical context.



Source: US Census Bureau, *Historical Statistics of the United States: Colonial Times to 1970*, Part II; US International Trade Commission, "U.S. imports for consumption, duties collected, and ratio of duties to values, 1891-2023, (Table 1)"; Tax Foundation calculations

Historically, markets have shown resilience during periods of both high and low tariff regimes. While it is unclear what the future tariff rates may be, Greenleaf Trust continues to advise clients on the merits of maintaining a long-term investment perspective and avoiding reactive portfolio adjustments based on short-term market fluctuations or headline risk. Our dedicated team remains vigilant in monitoring these developments. On behalf of the entire team, thank you for allowing us to serve on your behalf.

Maximizing Wealth Through a 1031 Exchange: A Guide for High-Net-Worth Families and Business Owners

Adam Mangiapane
Trust Relationship Officer

For high-net-worth families and business owners who have invested in real estate as part of their wealth-building strategy, a lesser known, yet powerful tool that can unlock significant financial benefits is the 1031 exchange. This article outlines when a 1031 exchange can be beneficial, the advantages and disadvantages of engaging in one, and the steps necessary to initiate and complete the process, all within the framework of existing tax laws.

What is a 1031 Exchange?

A 1031 exchange, also known as a like-kind exchange, is a provision under Section 1031 of the Internal Revenue Code (IRC) that allows a taxpayer to defer paying capital gains taxes on an investment property when it is sold, provided another similar property is purchased with the proceeds from the sale. This deferral of tax liability is the material draw for real estate investors, as it allows them to reinvest the full sale price into new property, rather than losing a portion of it to taxes.

Circumstances in Which a 1031 Exchange Can Benefit High Net-Worth Families and Business Owners

A 1031 exchange is most advantageous when it is used to facilitate the growth or diversification of a real estate portfolio without triggering significant tax consequences. Here are several situations in which a 1031 exchange could benefit high-net-worth families and business owners:

- **Diversification of Real Estate Holdings:** Business owners or investors looking to diversify their portfolios can use a 1031 exchange to sell a property and acquire different types of real estate, such as exchanging a single-family rental for a commercial property or an industrial property.
- **Upgrading to Larger Properties:** When a real estate investor or business owner is ready to upgrade their holdings, a 1031 exchange enables them to leverage their existing property's appreciation without incurring a large tax burden, effectively using the deferred taxes as a form of additional investment capital.
- **Estate Planning and Succession:** High-net-worth families often look for ways to pass on real estate holdings to heirs in a tax-efficient manner. A 1031 exchange can help defer taxes, and upon inheritance, the property can be stepped up to its fair market value, minimizing

"This deferral of tax liability is the material draw for real estate investors..."

Maximizing Wealth Through a 1031 Exchange: A Guide for High-Net-Worth Families and Business Owners, continued

"A 1031 exchange is most advantageous when it is used to facilitate the growth or diversification of a real estate portfolio without triggering significant tax consequences."

future tax liabilities for heirs.

- **Relocating Investment Properties:** Business owners or real estate investors who are looking to relocate their operations or investment properties to more favorable markets (e.g., regions with better tax advantages or more growth potential) can do so with a 1031 exchange, all while deferring capital gains taxes.

1031 Exchange Advantages

- **Deferral of Capital Gains Taxes:** The most significant benefit of a 1031 exchange is the ability to defer capital gains taxes on the sale of an investment property. Under IRC § 1031, if the investor meets all the required conditions, they can defer taxes indefinitely, thus allowing the funds to be reinvested and grow more quickly over time.
- **Wealth Accumulation:** By deferring taxes, the investor can reinvest the entire sale amount into new properties, amplifying wealth accumulation. Over time, this tax-deferred reinvestment can lead to significant portfolio growth without the drag of immediate tax consequences.
- **Flexibility in Property Types:** The property being sold must be replaced by "like-kind" property, which is broadly defined under the tax code. This provides significant flexibility for the investor to choose different types of properties (e.g., industrial or commercial) as long as the transaction qualifies.
- **Estate Planning Benefits:** For business owners and families looking to pass wealth down to heirs, 1031 exchanges allow for the transfer of investment properties without triggering an immediate tax burden. Combined with the step-up in basis upon death, this can result in a reduction of taxes for heirs.

1031 Exchange Disadvantages

- **Timing Requirements:** The 1031 exchange has strict deadlines: the replacement property must be identified within 45 days of the sale of the original property, and the new property must be purchased within 180 days. Failure to meet these deadlines will invalidate the exchange and trigger immediate tax liability.
- **Property Restrictions:** The replacement property must be "like-kind," which means it must be similar in nature or character. While this term is fairly broad, it can limit the investor's options depending on their investment goals. The exchange must be of real property, so personal properties (e.g., equipment, vehicles, or artwork) are excluded.
- **Upfront Costs:** While the tax deferral may be appealing, a 1031 exchange can come with some upfront costs. These can include fees for the qualified intermediary (who facilitates the exchange),

legal fees, and potential costs for conducting property valuations or appraisals.

- **Risk of Overpaying:** In order to fully defer capital gains taxes, the replacement property must be of equal or greater value than the original property, and all proceeds must be reinvested. This could lead to the investor purchasing a property that may not be in line with their investment goals just to meet the exchange requirements.
- **Depreciation Recapture:** While capital gains taxes are deferred, depreciation recapture taxes can still be a consideration in a 1031 exchange. These taxes must eventually be paid when the property is sold or disposed of in the future.

Steps to Initiate and Complete a 1031 Exchange

- **Consult a Qualified Professional:** Before beginning the process, high-net-worth individuals should work with professionals, such as tax advisors, real estate brokers, and attorneys, to understand the full implications of the exchange.
- **Sell the Existing Property:** The investor must sell the current property, and the proceeds will be held by a qualified intermediary (QI). The QI facilitates the exchange by ensuring the proceeds are not received directly by the investor.
- **Identify Replacement Property:** Within 45 days of the sale of the original property, the investor must identify potential replacement properties. The IRS allows the identification of up to three properties, regardless of their value, or more properties as long as they meet specific value criteria.
- **Close on the Replacement Property:** The final step is purchasing the replacement property within 180 days from the sale of the original property.

Conclusion

A 1031 exchange can be a powerful tool for high-net-worth families and business owners looking to grow or diversify their real estate portfolios while deferring taxes. However, the process involves detailed regulations, strict deadlines, and specific property requirements. By working with qualified professionals, investors can take full advantage of the benefits of a 1031 exchange while minimizing potential risks and complications.

“By working with qualified professionals, investors can take full advantage of the benefits...”

Sources:
1. Internal Revenue Code § 1031 (IRC § 1031): https://www.law.cornell.edu/uscode/text/26/1031
2. IRS Like-Kind Exchange Guidance: https://www.irs.gov/pub/irs-drop/n-03-64.pdf

Garrett Urman, CFP®
Wealth Management Advisor

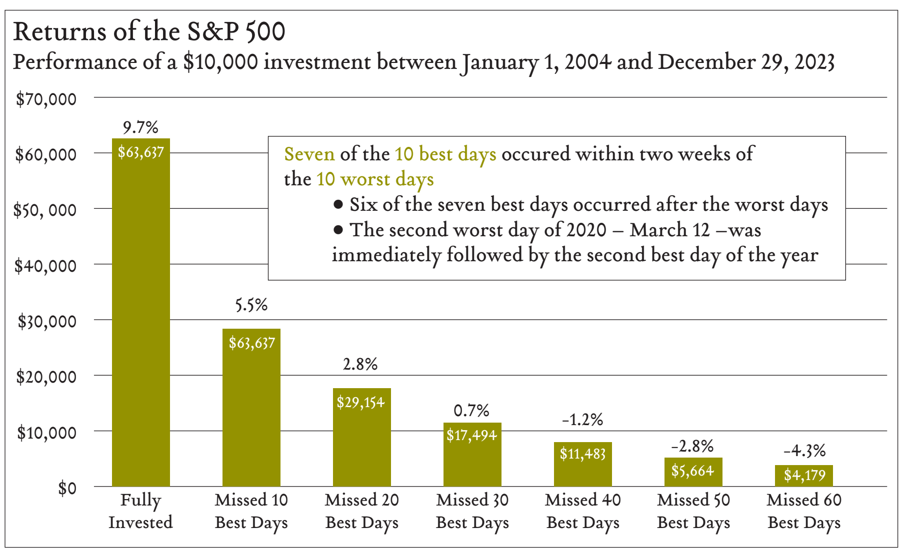
Investing Wisely: Avoiding Common Traps to Secure Your Financial Future

Investing is a powerful tool for building wealth and securing your financial future, but it is not without its challenges. Even seasoned investors can fall into common traps that can hinder their progress. Whether you are just starting your investment journey or looking to refine your strategy, understanding and avoiding these pitfalls is crucial. By being aware of these mistakes and taking proactive steps to avoid or mitigate them, you can stay on track toward achieving your financial goals.

"Whether you are just starting your investment journey or looking to refine your strategy, understanding and avoiding these pitfalls is crucial."

Common Investment Trap #1: Market Timing

Accurately forecasting the market's direction over short periods of time is essentially a guessing game, and missing even a short period of strong market performance can significantly reduce your long-term wealth. Yes, losses hurt more than gains feel good. But do not let emotions get the best of you. History shows that staying invested for the long term is the best recipe for success. Time in the market, not timing the market, is what matters.



Source: J.P. Morgan

Common Investment Trap #2: Lack of Diversification

One of the most frequent errors is putting all your eggs in one basket by investing in a single asset, sector, or geography. Over-relying on one investment exposes you to unnecessary risk, and if that asset or sector performs poorly, your entire portfolio could suffer. Diversification involves spreading your investments across various asset and sub-asset classes. It helps ensure that all of your investments do not move in lock-step, especially when the market declines. When market uncertainty hits as it is certain to do, portfolio diversification is often the best defense.

Common Investment Trap #3: Failing to Rebalance

Over time, some investments may grow faster than others, causing your portfolio to drift away from your target asset allocation. Regularly reviewing your portfolio and rebalancing it to maintain your desired asset allocation is considered a best practice for portfolio hygiene. If stocks outperform bonds, you may need to sell some stocks and buy more bonds to restore balance. In after-tax accounts, this may result in realized capital gains. Although it is important to be mindful of taxes, it should not be the primary driver of your investment strategy – i.e. don't let the tax tail wag the investment dog.

Common Investment Trap #4: Overconfidence

Relying too much on your own knowledge without seeking broader perspectives can lead to poor investment choices. These choices could be excessive trading resulting in higher transaction costs, overlooking fees or fund expenses ratios, underestimating risk, or ignoring contradictory evidence leading to confirmation bias (naturally favoring information that confirms your existing beliefs).

Common Investment Trap #5: The Perfect Solution

Be wary of investments that promise unrealistically high returns or have overly complex structures. While the figures do not lie, liars often figure. If it sounds too good to be true, it probably is. There are no guarantees when it comes to investing.

Successful investing does not have to be complicated. By creating a well-thought-out plan, avoiding common investment traps, and staying focused on your goals, you can build a resilient portfolio that stands the test of time. When challenges arise, remember to focus on what you can control and stay disciplined. If you are feeling unsure about your investment strategy, we stand ready to assist. Taking proactive steps today can help you avoid costly missteps and build a brighter financial future.

"When challenges arise, remember to focus on what you can control and stay disciplined."

Kathleen J. Waldron, QKA®
Vice President, Assistant Director of Retirement Plan Division

SECURE Act 2.0: What is Effective This Year and What Plan Sponsors Need to Know for 2026

"...the SECURE Act 2.0 introduces several new provisions designed to help individuals save more for retirement..."

In December 2022, the U.S. government passed the Setting Every Community Up for Retirement Enhancement Act 2.0, landmark legislation affectionally known as the SECURE Act 2.0, as part of the Consolidated Appropriations Act. This Act builds on the original SECURE Act of 2019, which aimed to improve retirement savings options for Americans. This current Act has a long tail, with some provisions that go into effect all the way through 2032. As we have covered in this publication over the last few years, the SECURE Act 2.0 introduces several new provisions designed to help individuals save more for retirement and encourage employers to offer retirement plans.

What to know about 2025 and beyond:

New plan start-ups

As of January 1, 2025, **new** 401(k) and 403(b) plans must include an automatic contribution and automatic escalation provisions. The automatic contribution must be set at least 3% of compensation; automatic escalation requires contribution increases of one percentage point per year, up to at least 10% but no greater than 15%. Employees can opt out if they wish, but this policy aims to increase retirement plan participation, especially among younger workers who may otherwise delay saving. There are a few company sponsored retirement plans that are excluded from this requirement, including companies with fewer than ten employees and any employer that has not been in operation for at least three years has a grace period. Church and government retirement plans are exempt as well. This change encourages higher participation and applies to new plans created since December 29, 2022.

Long-Term, Part-Time Employees

We have been addressing Long-Term, Part-Time (LTPT) employees with our retirement plan clients since the initial 2019 act which expanded 401(k) eligibility. Initially this made employees who reached the age of 21 and had worked at least 500 hours over three consecutive years eligible to contribute to the plan. The SECURE Act 2.0 shortened the required years of service to two years for plan years beginning after December 31, 2024, and expanded to 403(b) plans that are subject to the Employee Retirement Income Security Act (ERISA).

Required Minimum Distributions

One of the most significant changes in SECURE Act 2.0 is the increase in the age for Required Minimum Distributions (RMDs). Under the original SECURE Act, the RMD age was raised from 70½ to 72. The new law pushed this age further to 73 starting in 2023, and it will rise to 75 by 2033. This change provides individuals with more flexibility in their retirement savings, allowing them to let their investments grow for a longer period before being forced to take distributions leading to more financial security in later years.

Mandatory Roth Catch-Up Contributions for Certain High Earners

In 2026, mandatory Roth catch-up contributions for high earners will be effective. It requires that participants at least 50 years old whose prior-year Social Security wages exceeding $145,000 from an employer sponsoring the plan make catch-up contributions to a Roth account, rather than a pre-tax account. In January, the IRS proposed guidance that included some important clarifications. The $145,000 compensation limit is based on prior year FICA earnings with the same employer that sponsors the plan to which the catch-up contributions are made. This certainly will help as the plan sponsor does not have to track down income with a previous employer. This rule also does not apply to participants who do not pay FICA taxes.

This mandatory provision will require integration between the plan sponsor and their payroll provider to identify that group of participants with FICA wages more than $145,000 and to do so quickly by the end of the year. There is some complexity with this quick turnaround to identify this participant group. Education will be an important feature of this new provision as well. Even within plans where the Roth feature is already popular, some participants may not see the benefits of the Roth after-tax contribution. We certainly would not want to see participants not doing the catch-up because they do not want taxes taken out immediately. We will be working closely with our clients on this new requirement and be ready to assist with the identification of applicable participants and the implementation of the rule.

Enhanced Catch-Up Provision for Participants Aged 60-63

Effective in 2025, an enhanced or "super" catch-up contribution is available *if permitted by the plan sponsor*. Under the SECURE Act 2.0 plan participants who reach ages 60, 61, 62, or 63 by the end of the year will be able to make an extra catch-up contribution $11,250 rather than the standard catch-up contribution of $7,500 for people 50 or older in 2025. The extra amount for people aged 60-63 is a great incentive to defer more into the retirement plan if one has not been able to save enough earlier in their career. This option has garnered much attention and enthusiasm. Who is not as enthusiastic? Those who are not eligible for the extra catch-up; those attaining age 64 or older in 2025 as the standard catch-up amounts revert back at this age!

The deadline to implement the SECURE 2.0 Act changes to a qualified plan was extended. Now, the amendment required for most qualified plans has been extended until December 31, 2026. In the meantime, a plan sponsor, in good faith, can generally incorporate a mandatory or optional provision in the administration of their plan. We will ensure that all required plan restatements and tack-on amendments are completed timely for those retirement plans which we prepare this documentation.

The Retirement Plan Division within Greenleaf Trust has been actively reviewing and researching all these new provisions within the SECURE Act 2.0. We will continue to assist clients by providing updates as mandatory provisions become effective and provide information and guidance on optional provisions in the years to come.

"We will continue to assist clients by providing updates as mandatory provisions become effective and provide information and guidance on optional provisions in the years to come."

Stock Market Pulse

Index	2/28/2025	Total Return Since 12/31/2024
S&P 1500	1,339.07	1.21%
Dow Jones Industrials	43,840.91	3.32%
NASDAQ	18,847.28	-2.31%
S&P 500	5,954.50	1.44%
S&P 400	3,095.15	-0.67%
S&P 600	1,363.73	-2.98%
NYSE Composite	20,028.19	5.17%
Dow Jones Utilities	1,005.45	3.08%
Barclays Aggregate Bond	2,249.06	2.74%

P/E Multiples	2/28/2025
S&P 1500	24.8x
Dow Jones Industrials	23.1x
NASDAQ	39.5x
S&P 500	25.4x
S&P 400	18.7x
S&P 600	18.5x

Key Rates

Fed Funds Rate	4.25% to 4.50%
T Bill 90 Days	4.24%
T Bond 30 Yr	4.49%
Prime Rate	7.50%

Current Valuations

Index	Aggregate	P/E	Div. Yield
S&P 1500	1,339.07	24.8x	1.30%
S&P 500	5,954.50	25.4x	1.27%
Dow Jones Industrials	43,840.91	23.1x	1.61%
Dow Jones Utilities	1,005.45	20.4x	3.37%

Spread Between 30 Year Government Yields and Market Dividend Yields: 3.19%

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