

Beyond the Headlines: Your Investments and Wealth Plan

April 23, 2020

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Today's Agenda



Holly MacDonald
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Themes Beyond the Headlines

- Economy
- Dislocations
- Equities
- Planning Opportunities Amid:
 - Reduced Valuations
 - Market Volatility
 - Low Interest Rates

Headlines Highlight Upheaval in the Economy, Markets

Alarming New Data Show the Worst Might Be Ahead in a Coronavirus Economy

– The Finance 202, April 16

Coronavirus Stock-Market Volatility Is Creating the Largest Daily Price Swings Since 1929 Crash

– MarketWatch, April 8

Strange Relationship Between Stocks and Havens Unnerves Investors

– Wall Street Journal, April 16

The Devastated Travel Industry, By the Numbers

– Wall Street Journal, April 16

A Rally in Need of Help: Emerging Markets Look for Salvation

– Bloomberg, April 13

Could It Be Value Stocks' Time to Shine? One Long-Skeptical Strategist Thinks So

– Barron's, April 15

Our Take on Themes Beyond the Headlines



Economy: Unprecedented stimulus mitigates damage



Dislocations: Liquidity improved, fundamental shifts persist

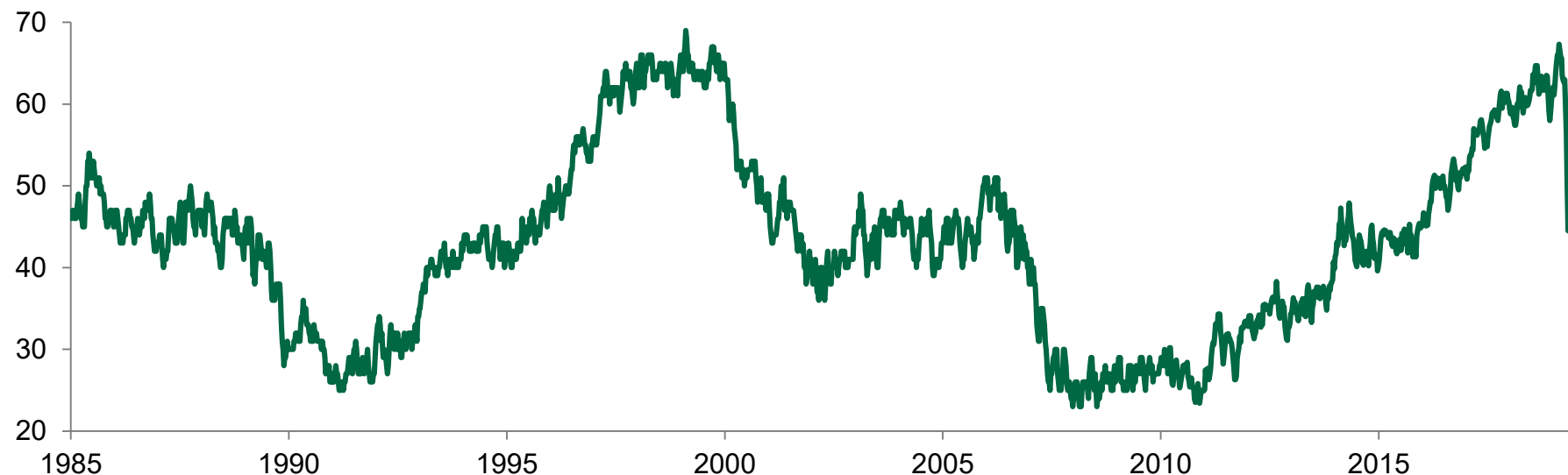


Equities: Structural growth trends intact; U.S. dominance in context



U.S. Consumers Facing an Economic Crisis Like No Other

Consumer Confidence Falling Off a Cliff



Indicator	Prior	Latest
Jobless Claims	204K to 220K per week	5.2M to 6.6M per week
Empire State Manufacturing Index	12.9	-78.2
Housing Starts	-1.5% MoM	-22.3% MoM

Consumer confidence as of April 12, 2020 and measured using Bloomberg Consumer Confidence. Table: "prior" is as of February 29, 2020 and "latest" is as of March 31, 2020 for housing starts and April 18, 2020 for Jobless Claims and Empire State Manufacturing Index.
Source: Bloomberg, Federal Reserve Bank of New York, U.S. Census Bureau, U.S. Department of Labor



Policymakers Acting Swiftly With Enormous Stimulus Efforts

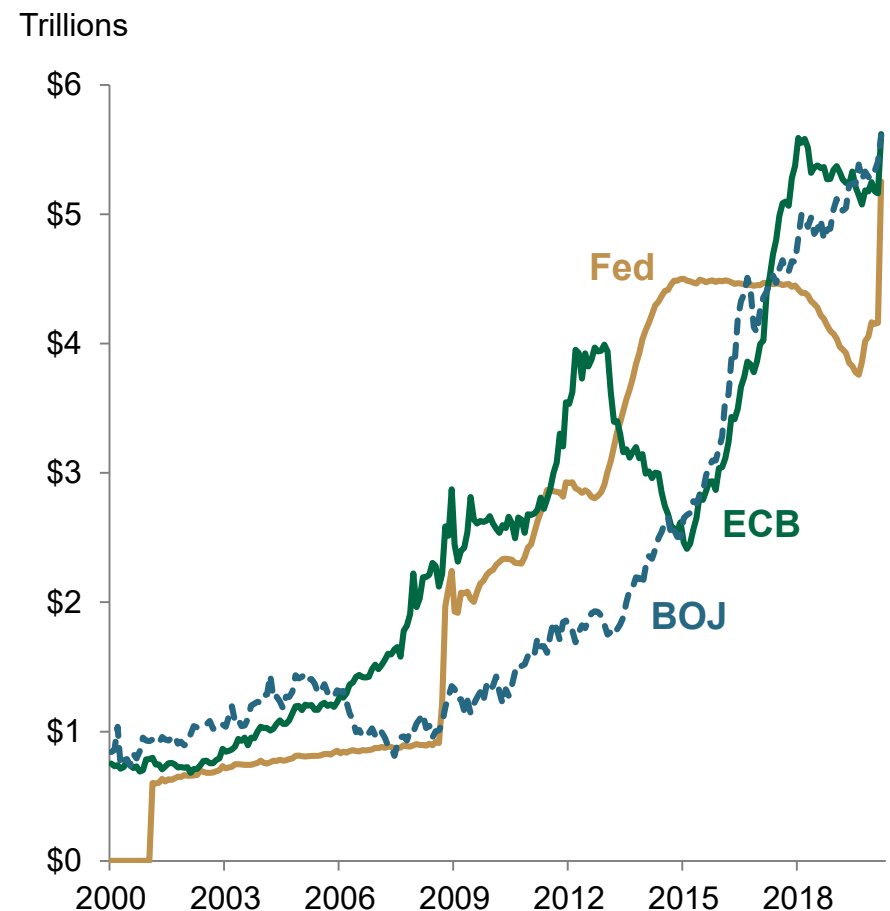
Fiscal Policy Rising to the Occasion With More to Come for Most Developed Economies

Percent of GDP

Country	Discretionary Fiscal Easing	Loan Guarantees
U.S.	7.4%	~19%
Germany	1.9	23.9
France	7.6	12.0
Italy	1.4	42.0
U.K.	3.7	15.0
Spain	2.6	14.6
Japan	2.5	7.3
Australia	10.5	2.1
Singapore	11.4	0.4

Fed Leads the Way in Balance Sheet Expansion

Total Assets

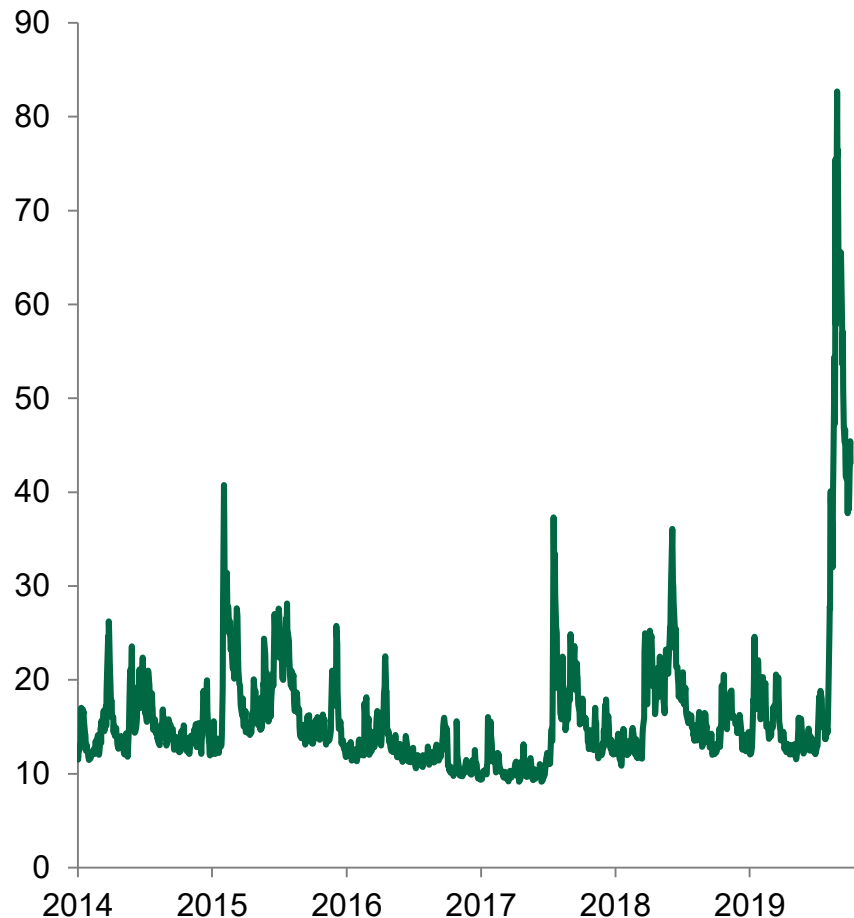


As of April 13, 2020. ECB is European Central Bank. BOJ is Bank of Japan.
Source: Goldman Sachs



Volatility Escalated While Oil Prices Plummeted

VIX Index



Brent Crude Oil



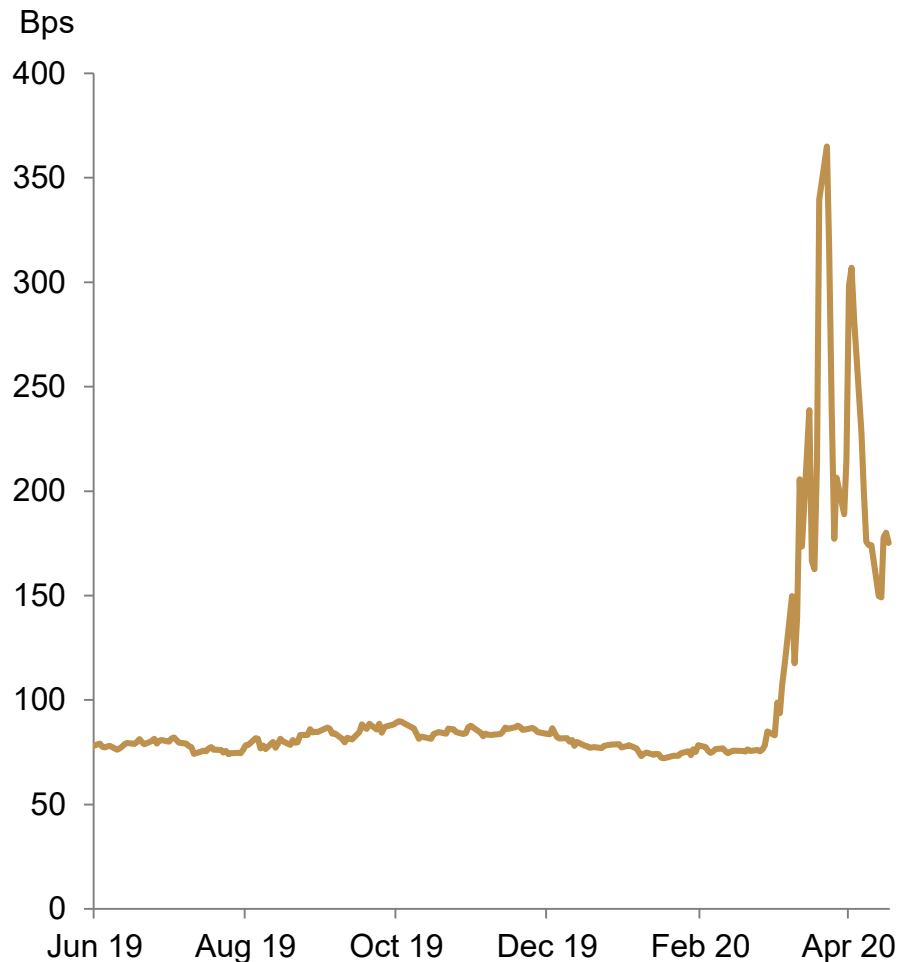
As of April 22, 2020. The VIX Index is the Chicago Board Options Exchange Volatility Index, a real-time market index that represents the market's expectation of 30-day forward-looking volatility.

Source: Bloomberg

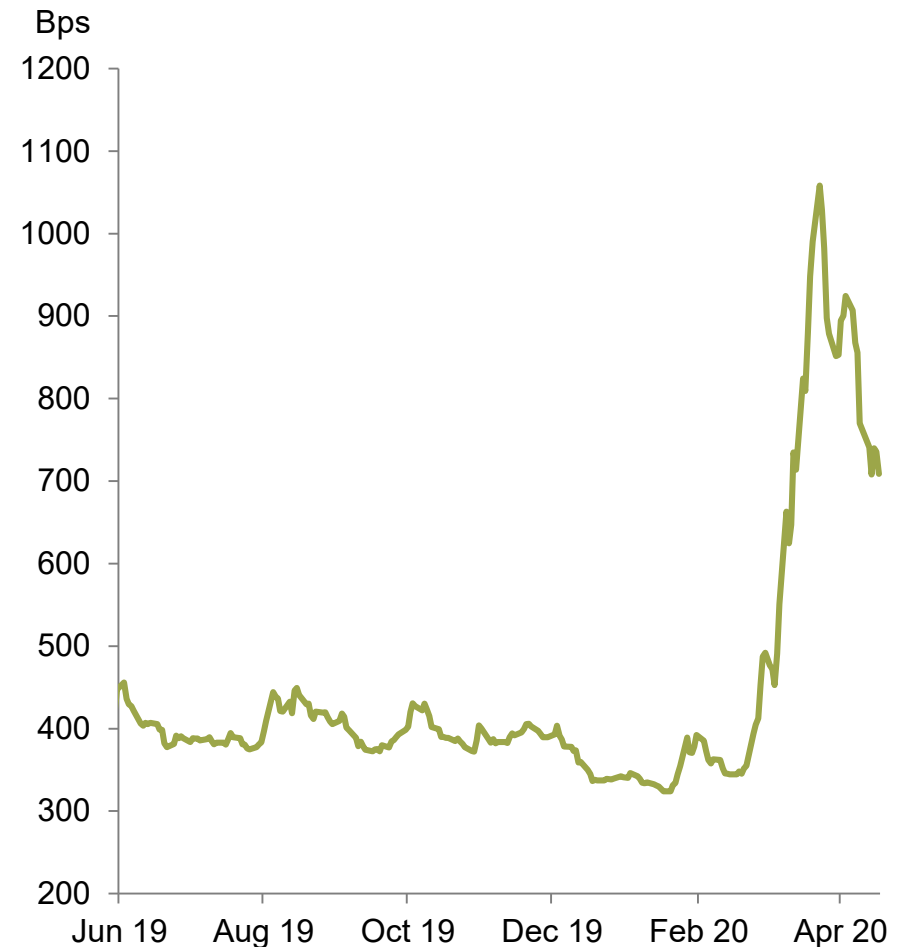


Extreme Turbulence in the Bond Market

Municipal Bond Spread



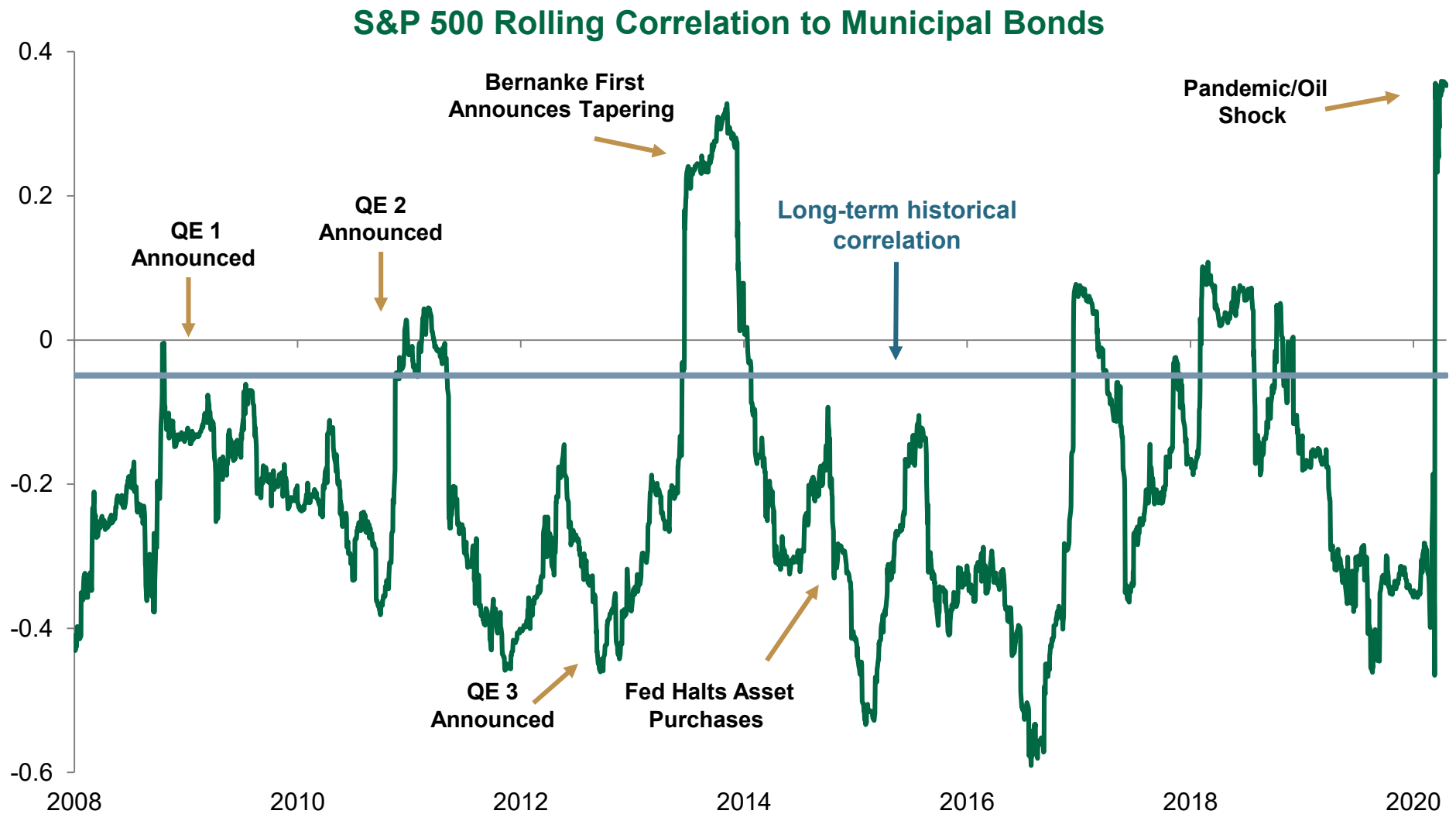
High Yield Bond Spread



As of April 18, 2020. Spreads are versus the 10-year Treasury yield. Municipal bonds measured using Bloomberg US Muni AAA 10 Year. High yield measured using ICE BofA US High Yield Index.
Source: Bloomberg



Shifting Relationship Between Stocks and Bonds



As of April 17, 2020. Green line is rolling 120-day correlation to high quality municipal bonds. Blue line is historical correlation to high quality municipal bonds.
Source: FactSet



Shutdowns Testing Corporations

Winners	Losers
<p>“As the pandemic unfortunately developed in the U.S. and Europe as the quarter progressed, demand surged.” – Procter & Gamble, April 17, 2020</p>	<p>“Travel demand is essentially zero and shows no sign of improving in the near-term.” – United Airlines, April 15, 2020</p>
<p>“Over the past month, we sold ... 400% more bread makers.” – Bed Bath & Beyond, April 15, 2020</p>	<p>“We anticipate ... the most severe decline in drilling and completion activity in a single quarter in several decades.” – Schlumberger, April 17, 2020</p>
<p>“Sales for March were \$15.49 billion, an increase of 11.7 percent from \$13.87 billion last year.” – Costco, April 8, 2020</p>	<p>“[We] expect to report that worldwide systemwide revenue declined approximately 23% in the first quarter of 2020.” – Marriott, April 14, 2020</p>

Companies increasing dividends:



Companies cutting dividends to zero:



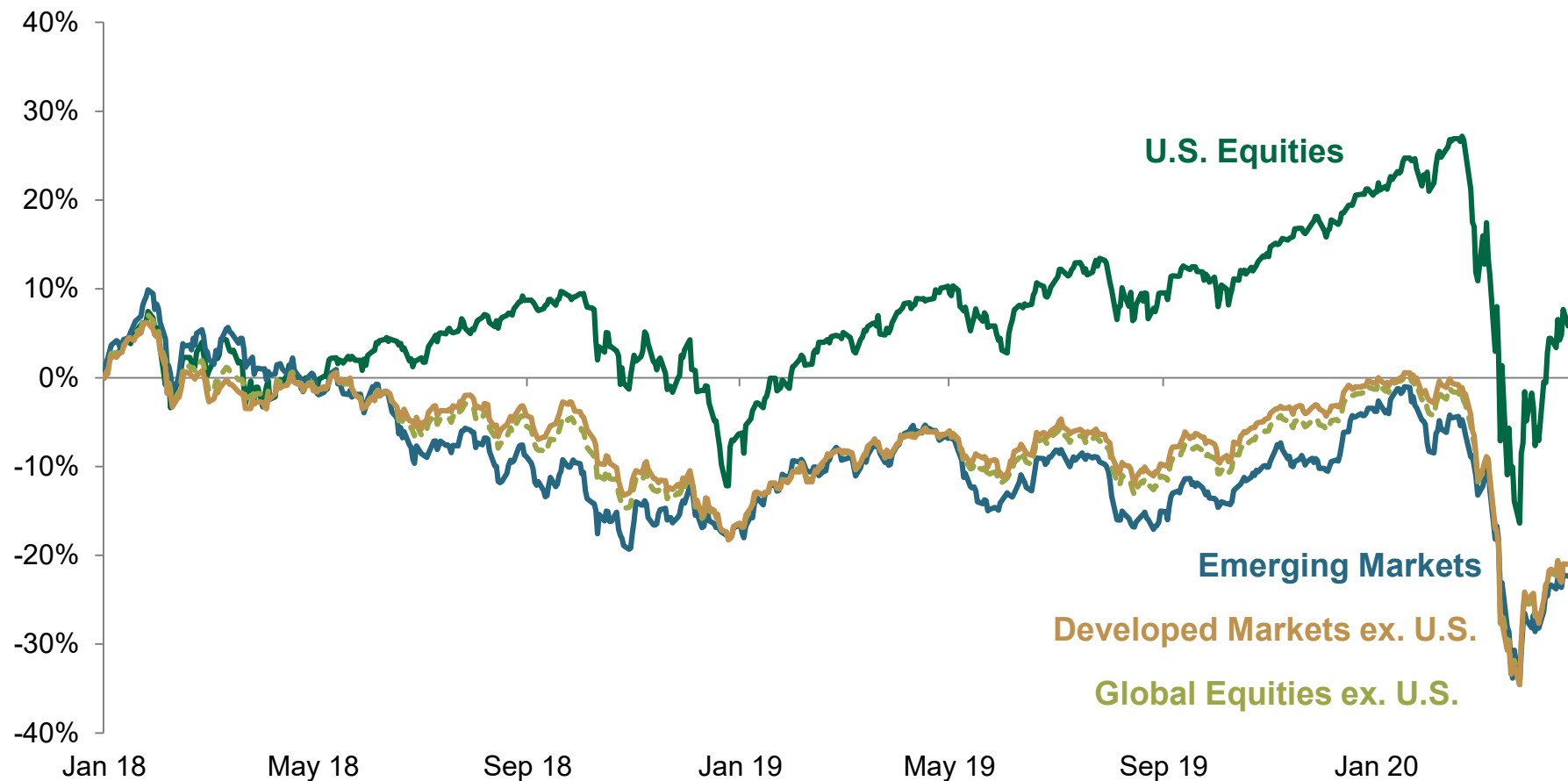
NORDSTROM

As of April 18, 2020.
Source: Company reports



U.S. Equities Led Prior to the Bear Market

Equity Market Performance Indexed to December 31, 2017



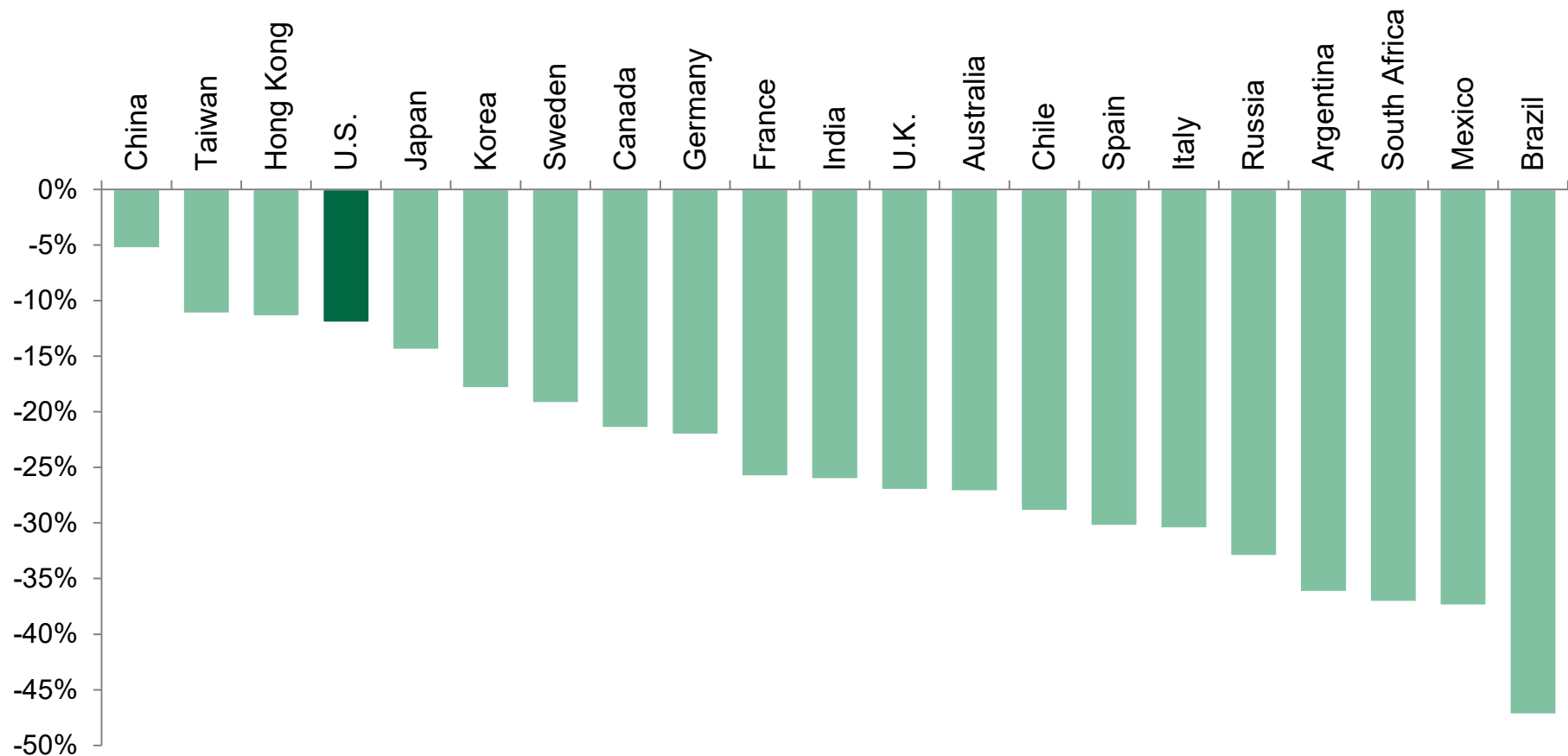
As of April 20, 2020. Reflects the price return in U.S. dollars. Equities measured using the following indices: MSCI USA (U.S.), MSCI ACWI ex. USA (Global Equities ex. U.S.), MSCI Emerging Markets (Emerging Markets), MSCI World ex. USA (Developed Markets ex. U.S.).

Source: Bloomberg



Large Differences in Stock Market Performance Across the World This Year

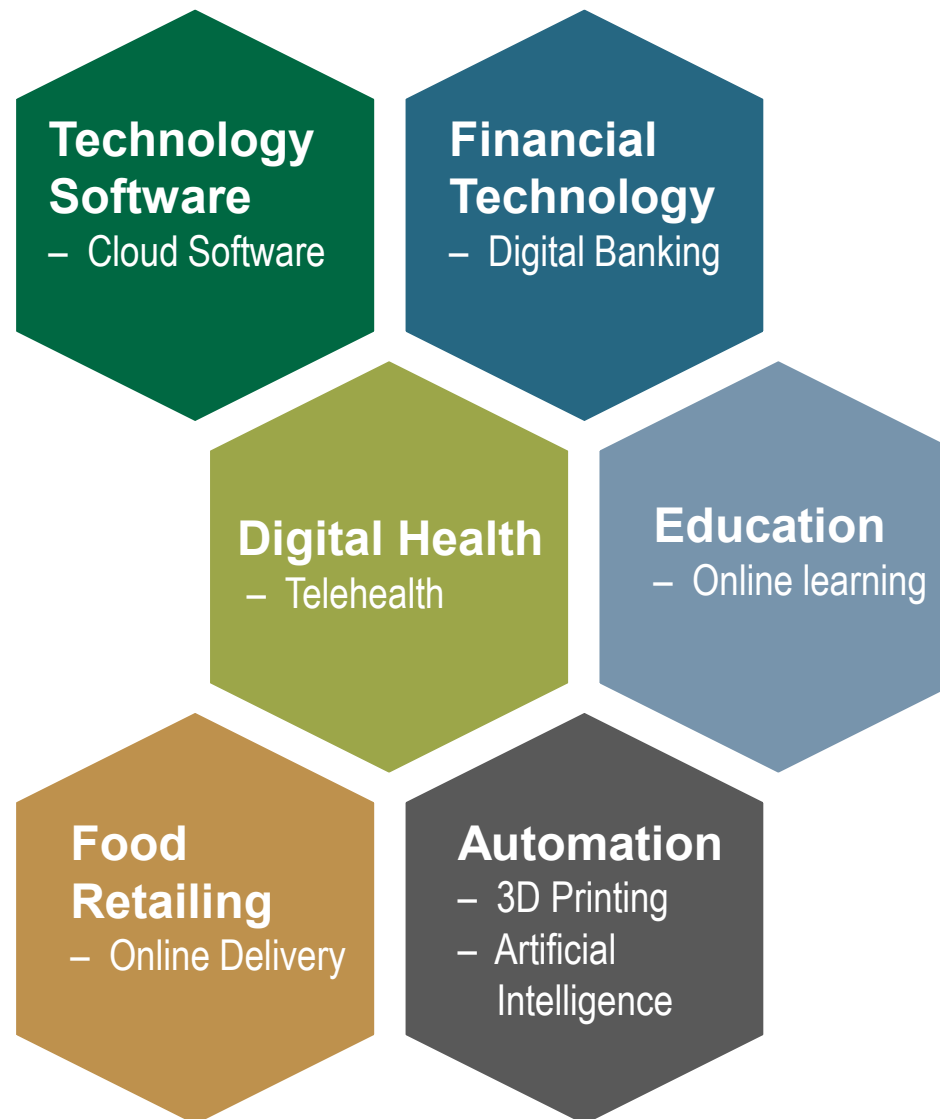
Year-to-Date Equity Market Performance



As of April 20, 2020. Performance is based on total return in U.S. dollars and measured using MSCI country indices
Source: FactSet, MSCI



Coronavirus Has Accelerated Existing Structural Growth Trends





Do Near-Term Earnings Matter?

Key Inputs	
2019 EPS	\$163/share
Ave. P/E 2015-2020	19.9x
S&P 500 Price	2800

EPS Growth (year-over-year)			
	2020	2021	2022
Upside	-14%	38%	21%
Base Case	-22%	25%	10%
Downside	-29%	13%	5%

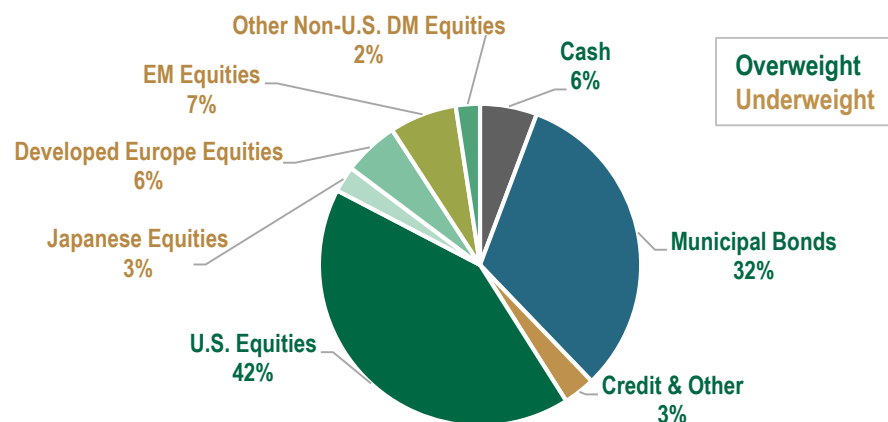
2022	
S&P 500 Potential Fair Value	3500
Change versus today	25%

- S&P 500 earnings have grown at a 6.5% annual rate on average over the past 85 years
- COVID-19 is difficult to compare to prior economic shocks – S&P 500 composition is very different
- The downside scenario would suggest a re-test of the March 2020 lows in the S&P 500
- A more benign scenario suggests longer-term upside
- This analysis takes a snapshot of several variables and extrapolates earnings trends

Bessemer Portfolio Positioning

Asset Allocation

Balanced Growth Without Alternatives 70/30



Balanced Growth 70/30 Benchmark	
Cash	0%
High-Quality Fixed Income	30%
Credit & Other	0%
U.S. Equities	39%
Japanese Equities	6%
Developed Europe Equities	13%
EM Equities	8%
Other Non-U.S. Equities	4%

Reflects positioning based on current weights as of March 31, 2020. Figures may not sum to 100% due to rounding. For asset classes, "Fixed Income" represents high-quality fixed income, and "Credit & Other" includes global government bonds, non-agency mortgage-backed securities, high-yield bonds, convertible bonds, and commodities. Regional and market capitalization weights exclude equity and equity derivatives held in the Multi-Asset Opportunities mandate; "Other Non-U.S. DM" includes Canada, Israel and Asia Pacific ex-Japan. The Equity Benchmark represents the MSCI All Country World IMI.
Source: Bessemer Trust, FactSet, MSCI

Portfolio Positioning in Today's Volatile Markets

- Asset allocation process
 - Senior investment professionals across asset classes comprise Asset Allocation Steering Committee and IPSC
 - Informed by Asset Allocation Committee
- Slightly defensive tilt maintained within equities and in Balanced Growth 70/30 model portfolio
- Equities:
 - Focus on quality companies with enduring business models
 - Increase in allocation to higher-conviction strategies
- Bonds: Maintaining high quality bias

Key Takeaways

- **What the headlines are missing:**
 - Unprecedented stimulus likely to offset severe economic declines over long term.
 - Rapid stimulus relieving stress across asset classes; some structural shifts to persist.
 - Current dynamics likely to accelerate some structural growth trends; U.S. equities can continue to outperform in a rebound scenario.
 - Critical to monitor two-sided risks around re-opening of European and U.S. economies.
- Balanced Growth portfolios have declined approximately 10% in 2020 after outperforming and delivering 21% returns in 2019. Recent performance benefiting from overweight to U.S. equities, growth-oriented stock selection bias, and active management.
- We recommended rebalancing portfolios in late March to maintain moderately defensive positioning, while advocating staying invested.

Our Take on Themes Beyond the Headlines



Reduced Valuations



Market Volatility



Low Interest Rates

Reduced Valuations

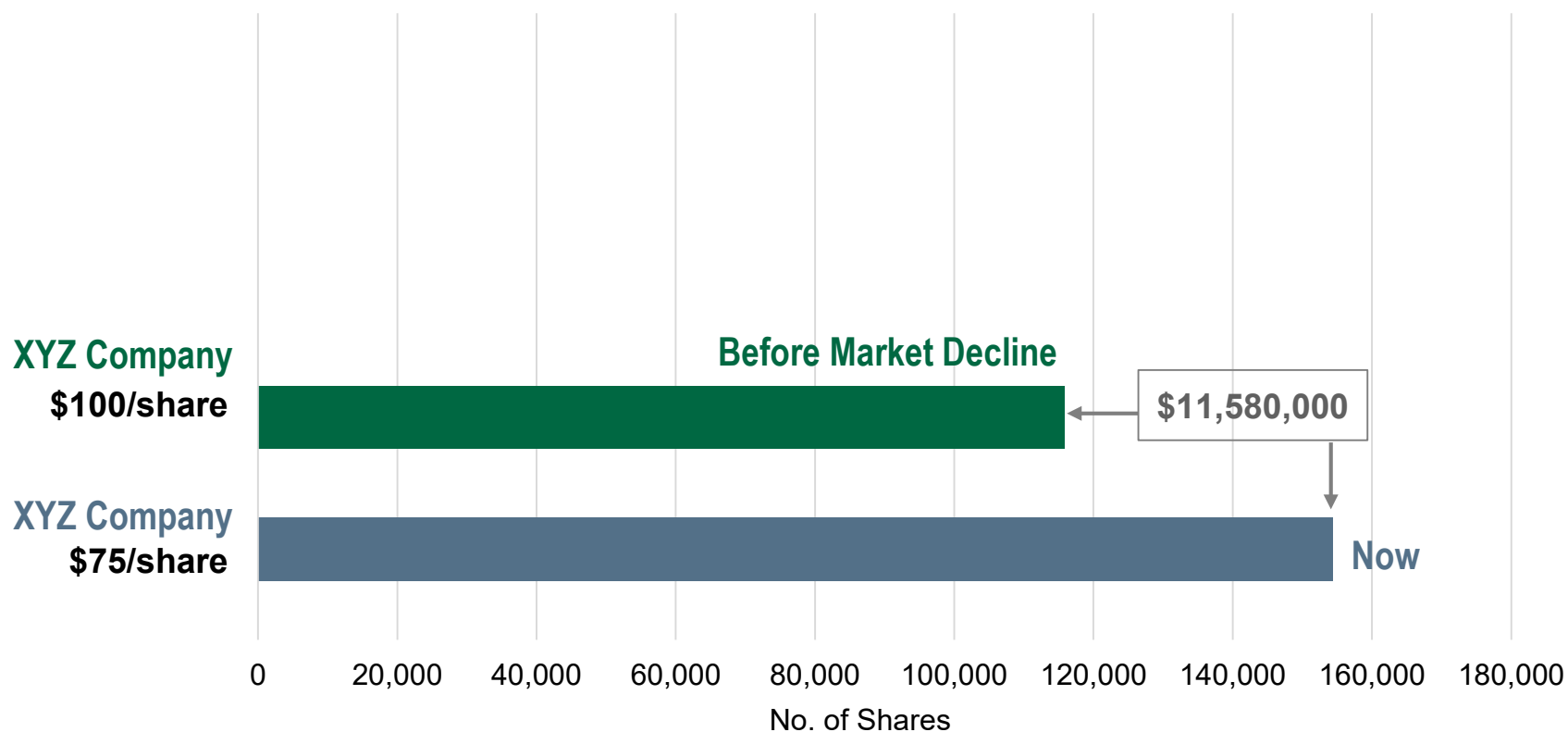
Low valuations save transfer taxes

- Sophisticated estate planning often involves structuring for valuation discounts convincing to the IRS
- Current market values trigger the opportunity to use “discounts” that cannot be questioned by the IRS
- Sample techniques that are based on current lower valuations:
 - IRA conversion, from traditional to Roth
 - Alternate valuation for taxable estates
 - Use full gift tax exemption



Reduced Valuations – More for Less

Number of Shares to Use \$11,580,000 Gift Exemption





Market Volatility

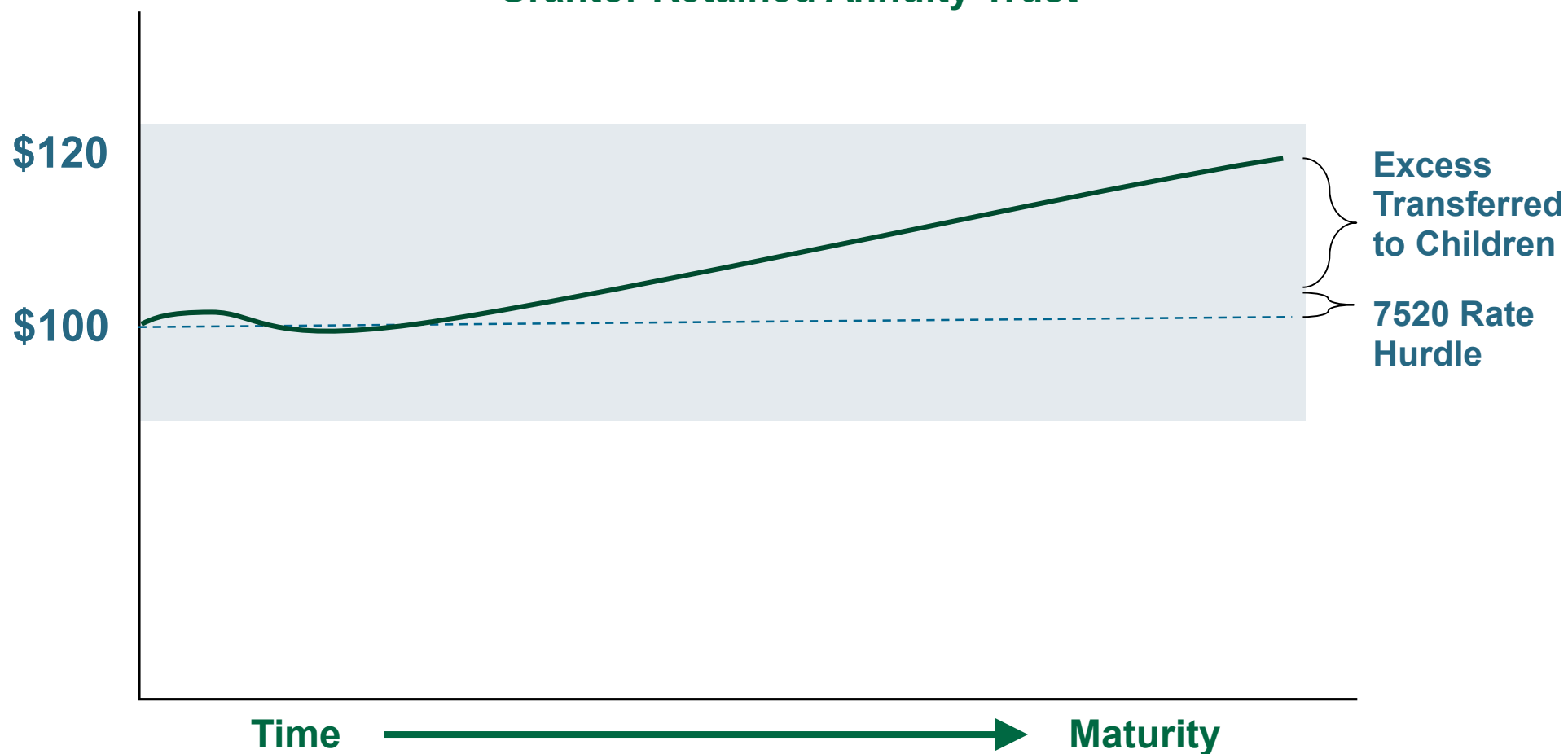
Possible opportunity shift

- “Reversion to the Mean,” when asset values move toward their average, can be viewed as a form of growth
- Shift that growth to outside your taxable estate
- Examples:
 - Annual exclusion gifts
 - Exchange assets in grantor trusts
 - Grantor Retained Annuity Trusts (GRAT)



Market Volatility

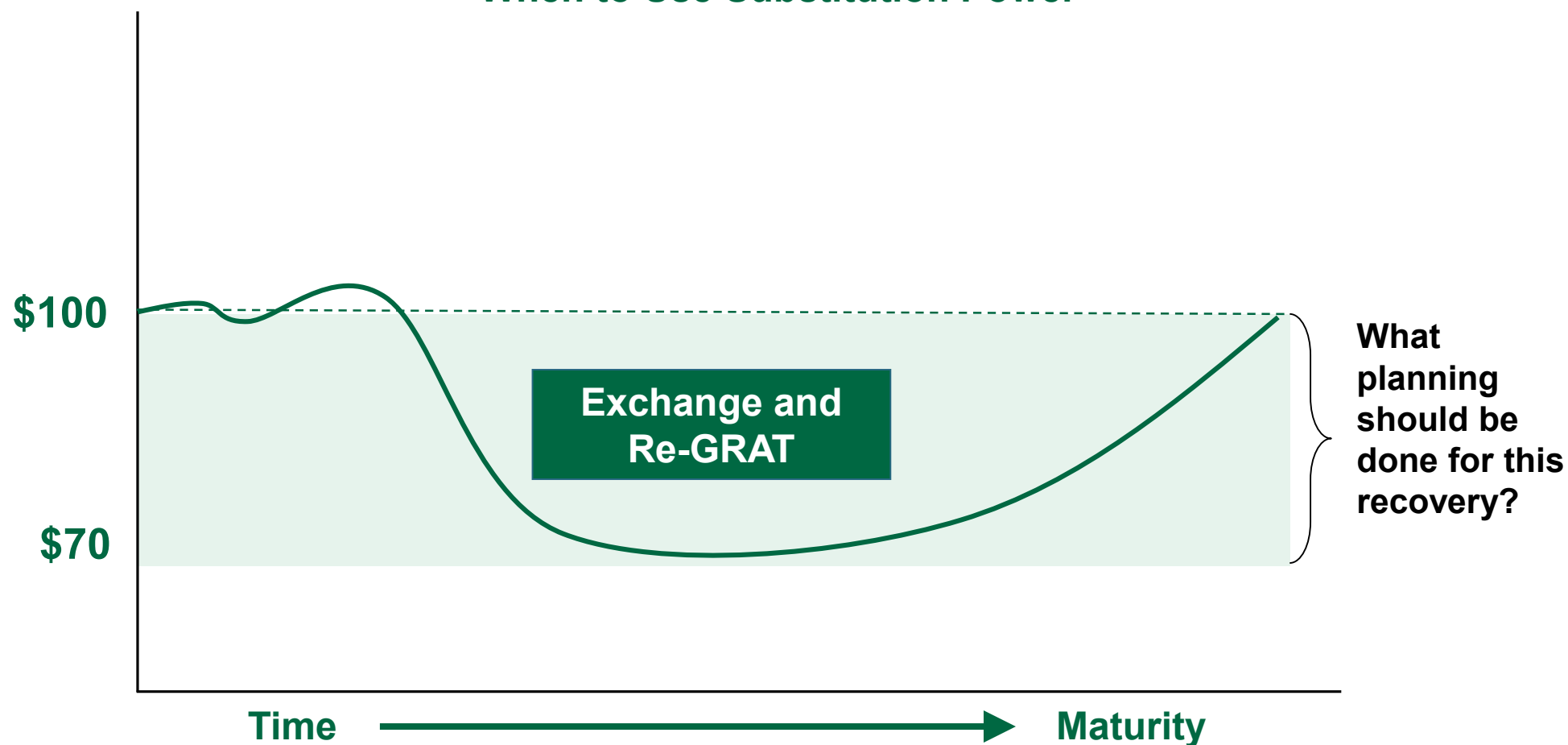
“Zeroed Out” Grantor Retained Annuity Trust





Market Volatility

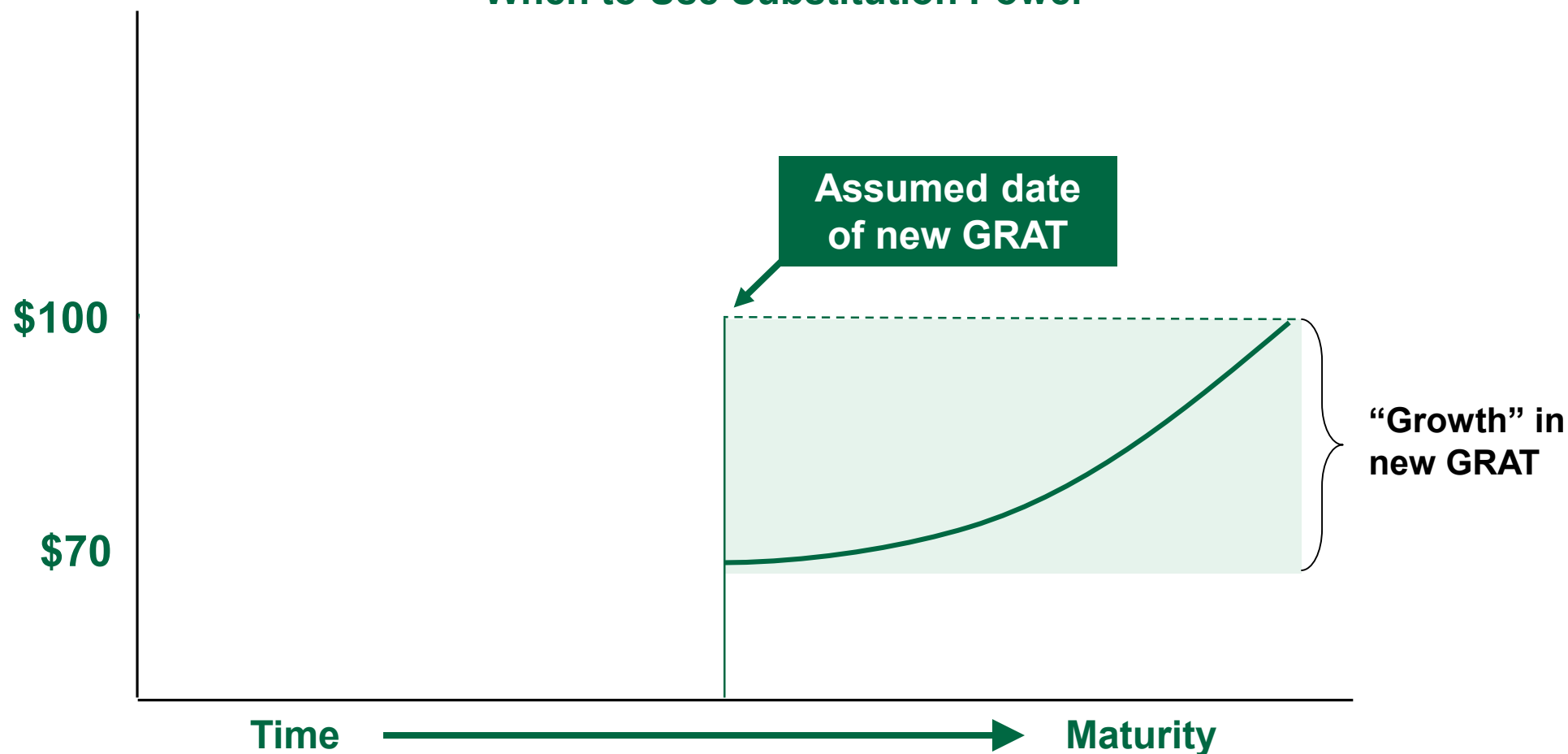
Grantor Retained Annuity Trust When to Use Substitution Power





Market Volatility

Grantor Retained Annuity Trust When to Use Substitution Power





Low Interest Rates: Family Loans

Why Now?

- April rates near historic lows
 - 7520 (hurdle) rate is 1.2%

Why Wait a Few Weeks?

- May rates will be lower
 - 7520 (hurdle) rate will be 0.8%

Annual Compounded Applicable Federal Rates (AFR)		
Loan Term	April	May
Short Term (<3 years)	0.91%	0.25%
Midterm (3-9 years)	0.99%	0.58%
Long Term (>9 years)	1.44%	1.15%

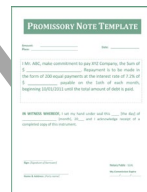


Low Interest Rates: Loan Arbitrage Opportunity Shift

Grantor/Lender



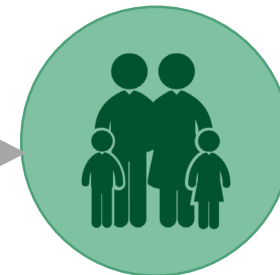
**Promissory Note
(\$50,000/year)**



Cash

**Grantor Trust
(Investments)**

Family



Example: \$20,000,000 May 2020 short term loan. Trust invests and earns 3%, pays interest, and nets:

- \$550,000 per year
- \$1,650,000 3-year wealth transfer
- No gift, estate, or GST transfer taxation



Low Interest Rates: Charitable Lead Trusts

Charitable Lead Annuity Trust (CLAT)

- Annual payments to charity for trust term*
- Remainder paid to, or for, family or other persons
- Easier to “zero-out” for transfer taxation with a lower 7520 (hurdle) rate

Example: 20-Year CLAT Funded with \$5,000,000 and 6% Growth

	No CLAT	May 2019 CLAT	May 2020 CLAT
7520 Rate		2.8%	0.8%
Children**	\$6,600,503	\$3,900,111	\$6,046,550
IRS (Estate Tax)	\$4,400,336	\$0	\$0
Charity	\$0	\$6,598,000 (\$329,900 annually for 20 years)	\$5,431,000 (\$271,550 annually for 20 years)
Optional Income Tax Deduction***	\$0	\$5,000,000	\$5,000,000

* Can be any term of years, or for one or more lifetimes.

** Can be into trust, including a GST transfer tax-exempt trust, providing additional tax savings.

*** Deduction in first year if a grantor trust CLAT is established, but election would cause future earnings to be taxed to donor.

Conclusion

- **Lower market values** create “discounts” that cannot be questioned by the IRS
- **Volatility** can enhance some transfer tax techniques
- **Low interest rates** provide powerful shifting opportunities

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