



Mid-Year Update — Continuing the Recovery

May 19, 2021

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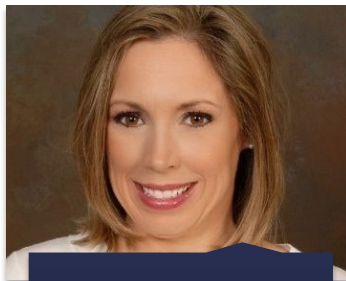
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Introductions



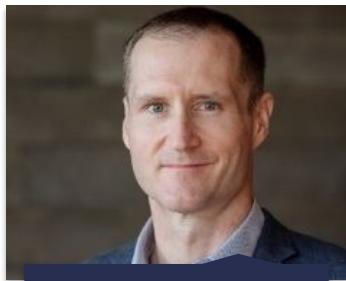
Tara Frazer, Managing Director of
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Gene Munster, Managing Partner and Co-
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Market update

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Trend 1: In Q2 2021, Investors Embrace Cautious Optimism

Bullish Market Signals

- COVID-19 vaccine roll-out
- Job recovery
- Strong appetite for fiscal stimulus
- Bi-partisan Infrastructure support

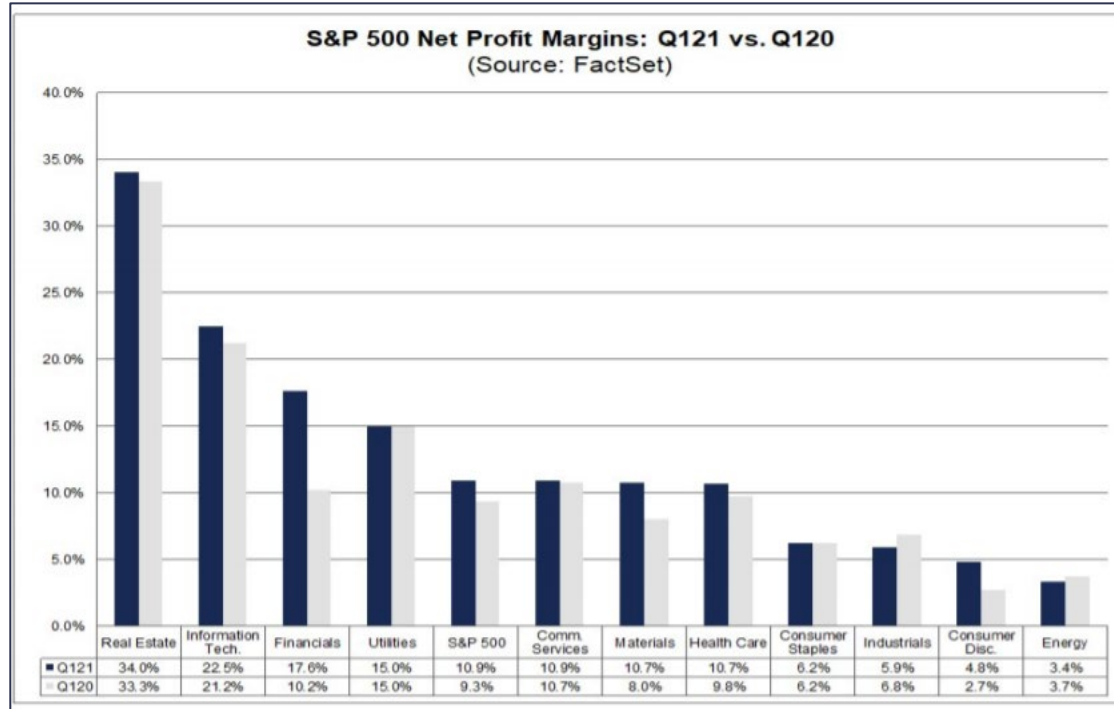


Bearish Market Signals

- Rich market valuations
- Growing inflation concerns
- Real interest rates begin to rise
- Volatility at the single-security level

Takeaway: Investors should be prepared to navigate any market environment

Trend 2: Economic recovery is a tailwind to all industries



Takeaway: Given rich valuations, apply a value approach when investing in equities

Trend 3: US Equity Valuations are at all time highs

Equity valuation percentiles (100% = most expensive)

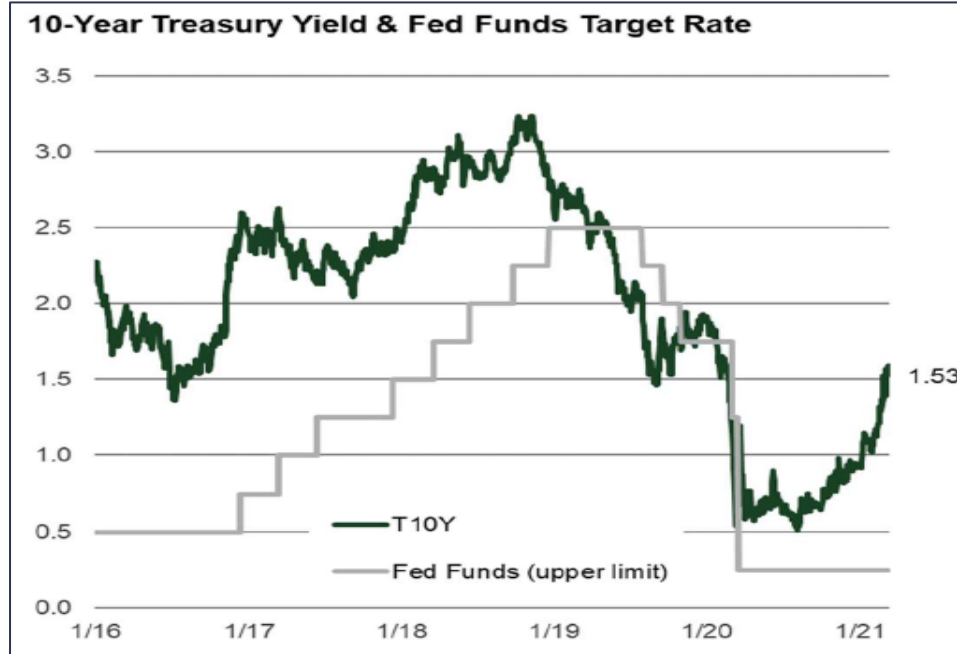
S&P 500 valuation metric	Dec 2019 percentile	Current percentile
US market cap / GDP	99%	100%
Enterprise value / Sales	99%	100%
Enterprise value / EBITDA	93%	100%
Forward P/E	88%	96%
Cash flow yield	85%	96%
Price / Book	90%	94%
Cyclically adjusted P/E	89%	94%
Free cash flow yield	53%	63%
S&P earnings yield - 10Y UST	28%	40%
Median metric	89%	95%

Source: Goldman Sachs Investment Research. EBITDA = earnings before interest, tax, depreciation, and amortization. February 9, 2021.

Takeaway: Focus on Fundamental metrics, such as free cash flow and earnings, when constructing portfolios



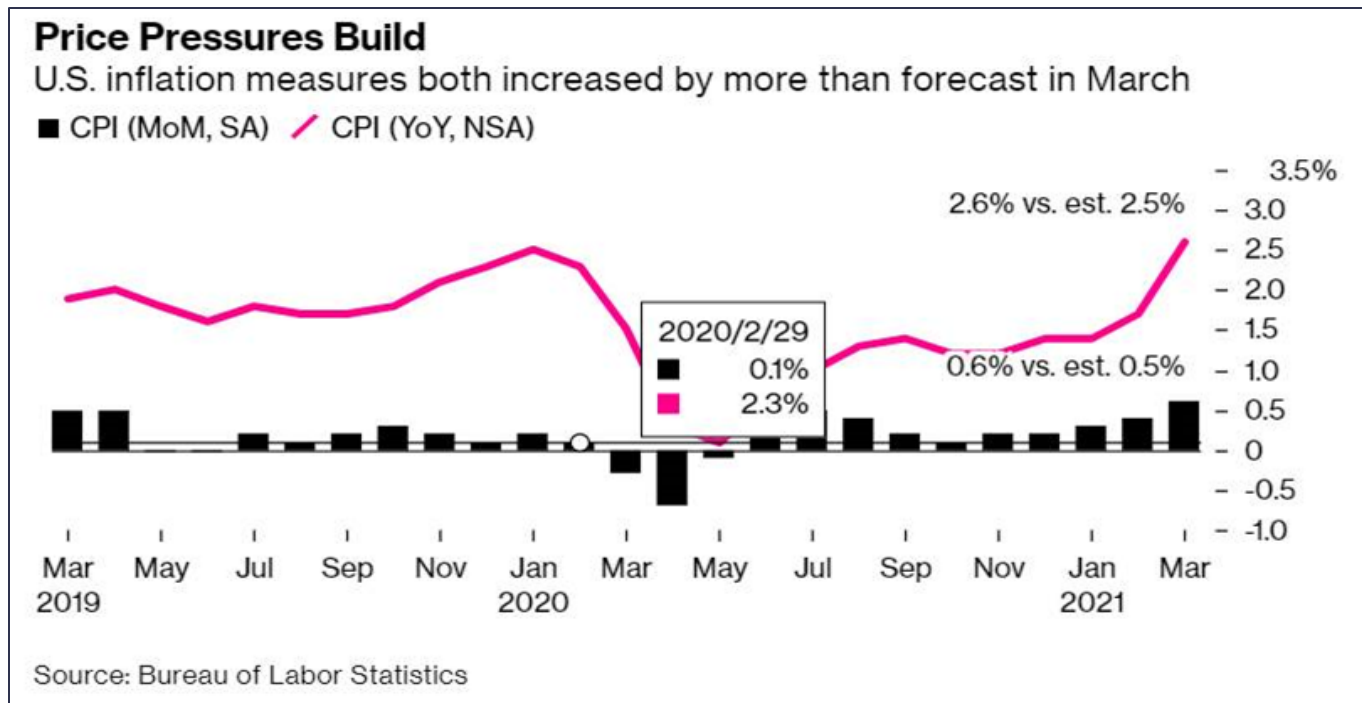
Trend 4: Rising interest rates point to an improving economy



**Source: Saint Louis Federal Reserve Bank, Green Street Research Commercial Property Outlook*

Takeaway: Rising rates could mean an opportunity to invest in financial institutions, who can take advantage of the rising rates

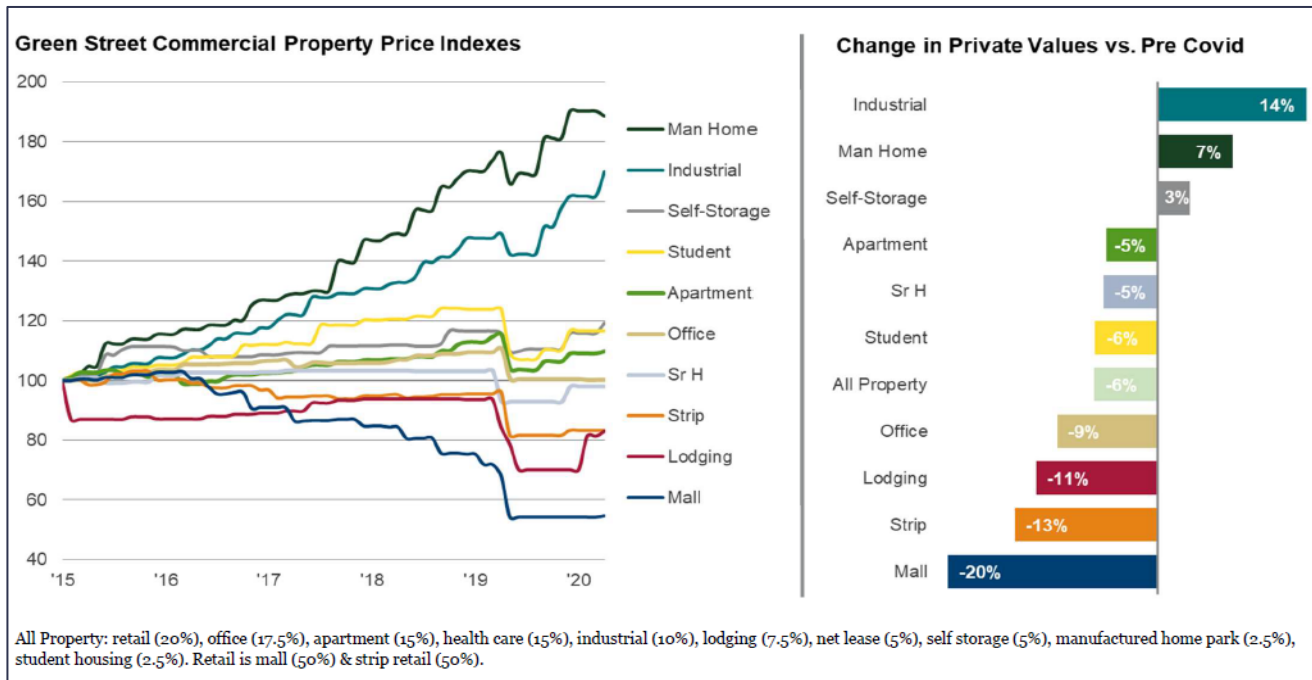
Trend 5: Potential Inflation showing up in Commodity Prices



Takeaway: Rise in inflation is being driven by rise in fuel and food prices



Trend 6: Private Real Estate sectors shows diverging performance

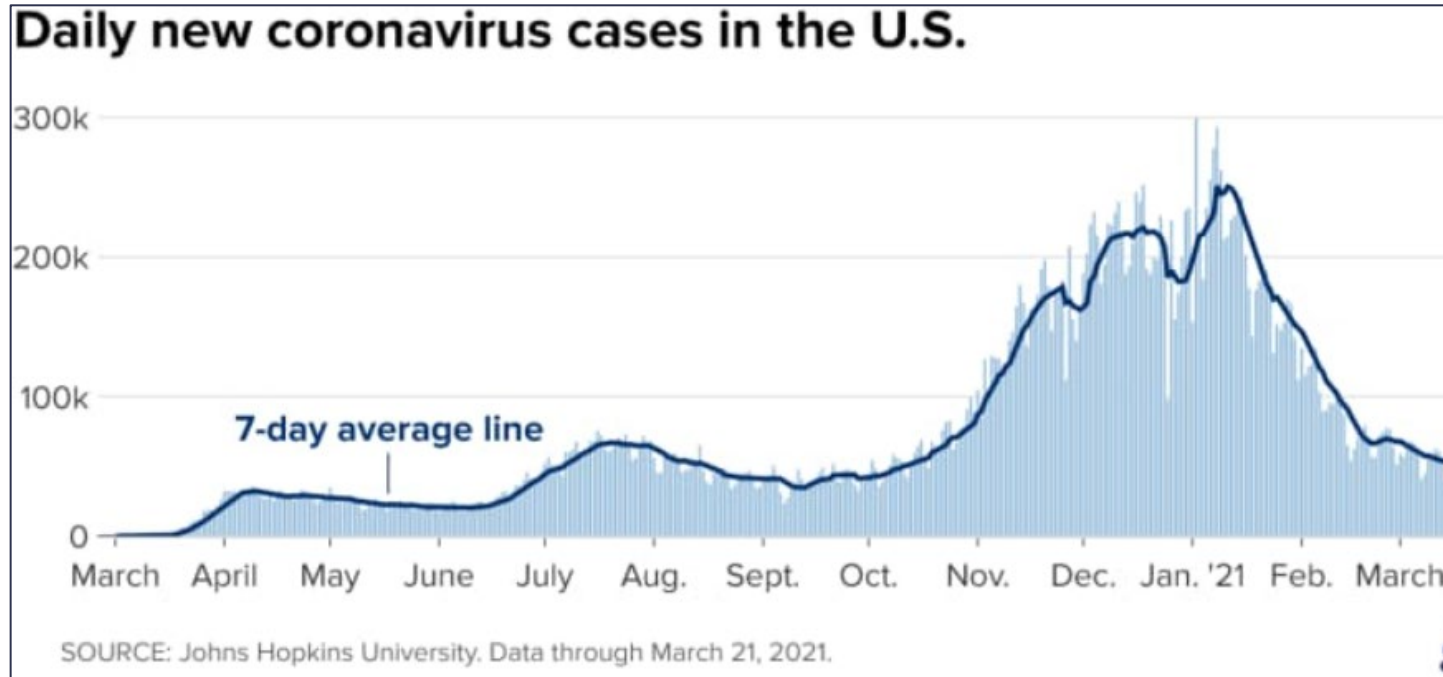


*Source: Green Street Research Commercial Property Outlook March 2021

Takeaway: Manufactured Housing and Industrial sectors are showing resilience in current market environment



Trend 7: Vaccine rollout puts COVID in rear-view mirror for investors



Takeaway: Investor optimism is being seen as money being put to work in both public and private markets

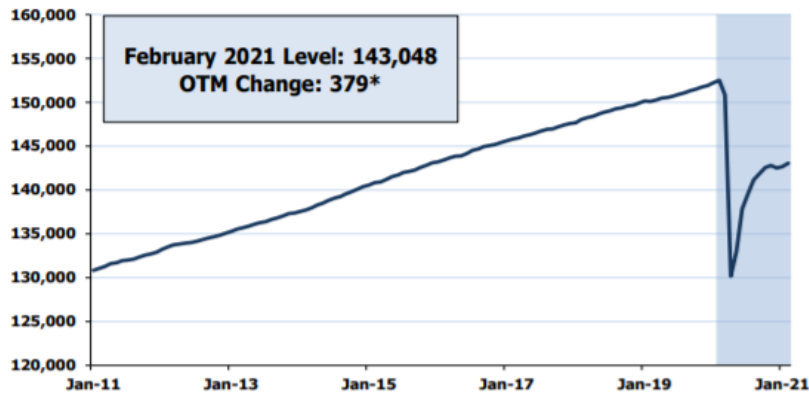


Trend 8: Rebound in Employment still uneven across industries

Strong Rebound in Job Growth since March 2020

Employment in total nonfarm January 2011–February 2021

Seasonally adjusted, in thousands

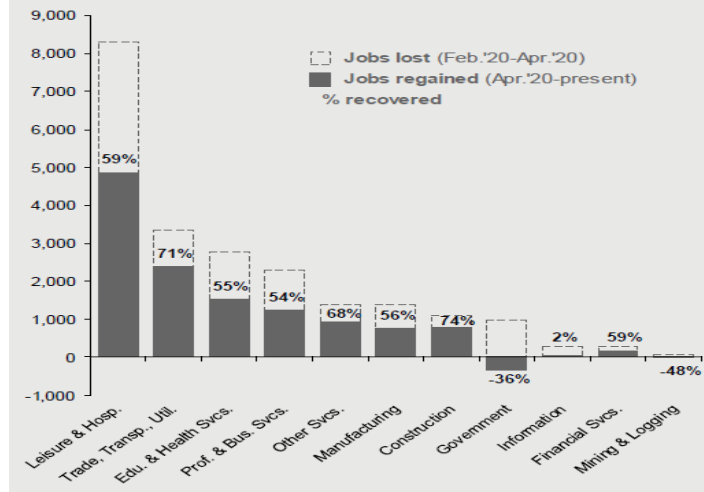


Bureau of Labor Statistics, Current Employment Statistics survey, March 05, 2021.
Shaded area represents recession as denoted by the National Bureau of Economic Research.
Most recent 2 months of data are preliminary.
* denotes significance.

Uneven Job Recovery across industries signals
pockets of distress

Payroll employment lost and regained by industry

Thousands, % recovered



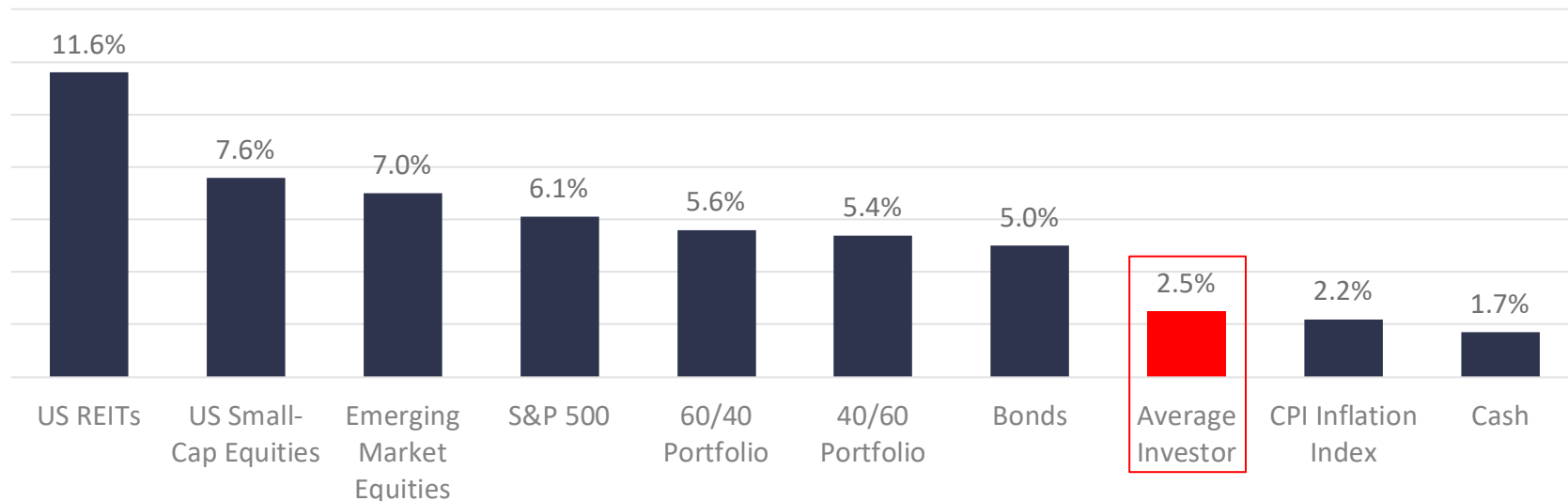
Source: Bureau of Labor Statistics, J.P. Morgan Asset Management.
Guide to the Markets – U.S. Data are as of December 31, 2020.

Takeaway: Robust stimulus measures are effectively targeting industries impacted by COVID



Trend 9: Staying invested amidst stimulus backdrop

20 Year Annualized Returns by Asset Class (1999-2019)



*Sources: Bloomberg Data and JPM Morgan Guide to Markets Q1 2021

Takeaway: We see value in US equities, infrastructure, preferred securities, and dividend growth strategies



Trend 10: Goals-Based Planning Should Drive Investing Strategy

Low-cost, tax efficient, diversified strategies

Growth

Assets like **stocks** can grow cash flows beyond inflation, though with a high degree of volatility.

- U.S. Equity
- Int'l Developed Equity
- Emerging Market Equity
- Private Equity

Income

Assets like **bonds** often have steady cash flows and lower volatility.

- Government Bonds
- Municipal Bonds
- Investment Grade Bonds
- High Yield Bonds
- Cash Equivalents

Diversifiers

Assets like **real estate** add portfolio diversification.

- Private Real Estate
- Private Credit
- REITs
- Preferred Securities

Takeaway: A well-constructed, diversified portfolio helps investors weather all market environments





Legislation tax update

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American Families Plan

Current Law (2021)

- 37% top rate
- 20% top rate on cap gains & dividends
- 3.8% net investment income tax (over \$250k for couples)
- Income taxes apply upon sale; stepped-up basis at death
- No limit on like-kind exchanges

President Biden's Proposal

- 39.6% top rate
- 39.6% cap gains & dividends (over \$1 million)
- \$3.8% would also apply to active income from businesses
- Income taxes on appreciation at death (\$1 million exclusion)
- \$500k limit on like-kind exchanges



Current Tax Rates (Married Couples)

Taxable Years Beginning in 2021

If Taxable Income Is:

The Tax Is:

Not over \$19,900

10% of the taxable income

Over \$19,900 but not over \$81,050

\$1,990 plus 12% of the excess over \$19,900

Over \$81,050 but not over \$172,750

\$9,328 plus 22% of the excess over \$81,050

Over \$172,750 but not over \$329,850

\$29,502 plus 24% of the excess over \$172,750

Over \$329,850 but not over \$418,850

\$67,206 plus 32% of the excess over \$329,850

Over \$418,850 but not over \$628,300

\$95,686 plus 35% of the excess over \$418,850

Over \$628,300

\$168,993.50 plus 37% of the excess over \$628,300



39.6% Top Rate Proposal

Fact sheet: There is no mention of income thresholds. (These #s could change!)

Taxable Years Beginning in 2021

If Taxable Income Is:

Not over \$19,900

Over \$19,900 but not over \$81,050

Over \$81,050 but not over \$172,750

Over \$172,750 but not over \$329,850

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Over \$418,850 but not over ~~\$62,300~~ \$509,300

Over ~~\$62,300~~ \$509,300

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\$67,206 plus 32% of the excess over \$329,850

\$95,686 plus 35% of the excess over \$418,850

~~\$168,350~~ plus ~~%~~ of the excess over ~~\$509,300~~

\$127,344 plus 39.6% of excess over \$509,300



39.6% Top Rate Proposal

Married couple



\$1 million of ordinary income

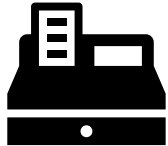


39.6% Top Rate Proposal

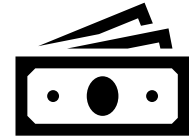
Married couple



\$1 million of ordinary income



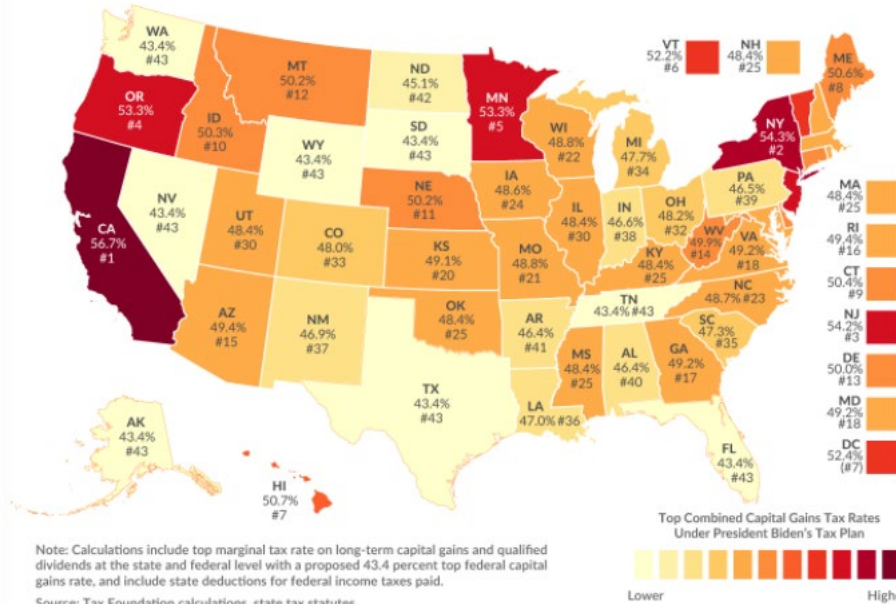
Extra \$15,000 in taxes



Capital Gains Proposal

Top Combined Capital Gains Tax Rates Would Average 48 Percent Under Biden's Tax Plan

Top Combined Capital Gains Tax Rates by State Under President Biden's Tax Plan



- Top rate is currently $20\% + 3.8\% = 23.8\%$
- Pres. Biden proposes 43.4% (over \$1 million)
- Average top rate at state level is 5.2%
- Combined capital gains tax rates would exceed 50% in some states

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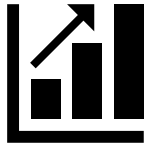


Capital Gains Proposal

Married couple



\$1 million of capital gains

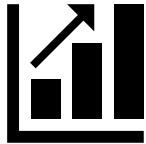


Capital Gains Proposal

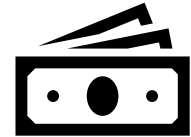
Married couple



\$1 million of capital gains



Extra \$200,000 in taxes




Medicare Tax Proposal


- Fact sheet: “Finally, high-income workers and investors generally pay a 3.8 percent Medicare tax on their earnings, but the application is inconsistent across taxpayers due to holes in the law. The President's tax reform would apply the taxes consistently to those making over \$400,000, ensuring that all high-income Americans pay the same Medicare taxes.”
- WSJ: The Bidens routed book and speech income through S corps saving \$500k in self-employment tax.



Example



Current law:				Social Security	Medicare	Additional	Net Investment	
				Tax	Tax	Medicare	Income Tax	Total
		Business	Total	12.40%	2.90%	0.90%	3.80%	Payroll
	<u>Wages</u>	<u>Income</u>	<u>Income</u>	<u>(up to \$142,800)</u>	<u>(no limit)</u>	<u>(over \$250k)</u>	<u>(over \$250k)</u>	<u>Taxes</u>
Bo	\$14,000,000		\$14,000,000	\$17,707	\$406,000	\$123,750		\$547,457
Joe & Joe's S Corp	\$1,000,000	\$13,000,000	\$14,000,000	\$17,707	\$29,000	\$6,750		\$53,457



- *Bo has a “tell-all” contract with Presidential Publishing Company for \$14 million.*
- *Joe’s S Corp has a contract with Presidential Publishing Company for \$14 million. The S Corp pays Joe a wage (reasonable compensation).*
- *Bo pays \$500k more in payroll taxes than Joe.*



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Proposal???				Social Security	Medicare	Additional	Tax on Business	
				Tax	Tax	Medicare	Income???	Total
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Bo	\$14,000,000		\$14,000,000	\$17,707	\$406,000	\$123,750		\$547,457
Joe	\$1,000,000	\$13,000,000	\$14,000,000	\$17,707	\$29,000	\$6,750	\$494,000	\$547,457



Ending the “Stepped-up” Basis Proposal

- President’s proposal would tax appreciated property at death
- \$1 million exemption (\$2 million per couple; \$500k home)
- Exceptions
 - Donations to charity
 - Family-owned businesses & farms (if heirs continue to run the business)
- Not yet addressed
 - Lifetime transfers
 - Changes in estate and gift tax rates; changes in exemption



Example

- *Estate tax is based on FMV at death*
- *Income tax is based on appreciated gain (even if the asset is NOT sold)*
- *Income tax could exceed estate tax*

Assets	FMV	Basis	Unrealized Gain
50,000 shs Ralston Purina	\$6,050,000	\$50,000	\$6,000,000
200,000 shs General Mills	\$12,600,000	\$1,600,000	\$11,000,000
Total	\$18,650,000	\$1,650,000	\$17,000,000
<u>Estate & gift taxes</u>			
Exemption at death (2021)	-\$11,700,000		
Taxable estate	\$6,950,000		
Estate taxes	\$2,725,800		
<u>Estate & gift taxes</u>			
Exemption at death			-\$1,000,000
Taxable gain			\$16,000,000
Income taxes			\$6,944,000



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Exemption at death			-\$1,000,000
Taxable gain			\$16,000,000
<u>Income taxes</u>			
			\$6,944,000



Like-kind Exchanges

- Current law
 - Individuals can defer gain on the sale of real estate.
 - There is no dollar limit.
 - Property must be held for productive use in a business or as investment property.
 - Must identify and receive “like-kind” property within deadlines.
- For exchanges after 1/1/2018, like-kind exchanges are limited to real estate.



Like-kind Exchanges

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 - There is no dollar limit.
 - Property must be held for productive use in a business or as investment property.
 - Must identify and receive “like-kind” property within deadlines.



Property A is sold for \$10x.
No gain recognized in 2021.



Property B is bought for \$10x.



Like-kind Exchange Proposal

- Fact sheet: “The President would also end the special real estate tax break – that allows real estate investors to defer taxation when they exchange property – for gains greater than \$500,000. . .”
- Open issues
 - Is it per individual or per taxpayer?
 - Is it per year? Or every several years?
 - Is it per disposition?
 - For passthroughs, is it at the entity level or member/partner level?
 - When would it be effective?



Proposed Fiscal Year 2022 U.S. Budget

- When will we have details about President Biden's proposals?
- Green book expected release: last week of May





Panel Discussion

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Questions

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Thank you!

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