LANIER
ASSET MANAGEMENT LLC

Building **Confidence** and **Security** in Your **Financial Future**

Monthly Update

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Repatriation Myths and Realities

Mark R. Hoffman

CEO, Principal

One of the most heavily debated topics in Washington is tax reform. Tax reform was one of the pillars of Trump's platform and it now appears to have taken center stage. On most of the issues, there are strong arguments on both sides. One of the few areas of relative consensus is providing a "tax holiday" to repatriate profits earned by American countries overseas. The news headlines scream that this is a no-brainer: Huge US tax revenues for the taking! Massive dollars flowing back to the US for investment and job growth! All of this got us wondering how much is myth and how much is reality when it comes to repatriation. First some context…

When US companies earn money outside of the US, they have choices on what they can do with those profits. They can put them to work in those geographies (building international facilities, hiring ex-US sales forces, etc.). They can put the money into international banks. Or they can decide to bring the money back to the US – but to do so, they are subjected to the US corporate rate of 35% (less a tax credit equal to taxes paid to foreign governments). When companies have to have the cash, they pay their US taxes and repatriate the earnings. When they don't have to have the cash, they often choose to leave it abroad and delay (or avoid) paying US taxes. On to the myths and realities.

Myth #1: There is a huge amount of money sitting offshore that could be brought back to the US.
Reality: There is a huge amount of money parked overseas. This is no myth – and the number is growing rapidly. The Tax Policy Center estimated that there were $2.6 trillion of offshore profits from US companies at the end of 2015, up from $1.7 trillion in 2010.

Myth #2: Allowing repatriation of foreign profits at a reduced rate would generate enormous tax revenues.
Reality: President Trump's team is contemplating a 10% tax on repatriated earnings. Estimates from the Tax Policy Center indicate that this could generate ~$150 billion in new tax receipts. At face value, that is a big number. But that $150 billion would be collected over 10 years. $15 billion/year isn't chump change and would trim our estimated 2018 budget deficit of $487 million by 3.1%. But to put this in full perspective, estimated 2018 federal government outlays are expected to be $3.8 trillion. $15 billion is 0.4% of that figure. Every little bit helps, but this new revenue won't "crack the case."

Myth #3: Repatriation would be a windfall for US companies and the US equity market.
Reality: This varies highly by company. While it's true that $2.6 trillion of US company profits are held offshore, the holdings are highly concentrated. One half of the total lies with just 20 companies. Apple leads the way with $250 billion, but Pfizer ($200+ billion), Microsoft ($110), GE ($105), IBM ($68), Merck ($60), Google ($60), Cisco ($60) and J&J ($60) are not that far behind. All of these names are huge S&P 500 companies. When you get to the broader US equity markets, this issue rapidly disappears. Having said that, the un-repatriated earnings per share for these companies is in some cases quite staggering. For example, at the end of 2016, Pfizer's un-repatriated income per share stood at ~$32/share which equated to roughly 96% of the share price!

Myth #4: Repatriation of foreign profits will give companies a war chest of cash that will drive new investments and job growth.
Reality: Probably not. First, interest rates are still exceptionally low. If companies had shovel-ready investments that were just waiting on cash, they probably would have borrowed the money to do them. Second, the last "tax holiday" addressing this exact issue occurred in 2004 under George W. Bush. $300 billion was brought back to the US but instead of making capital investments, companies returned 80% of those dollars to shareholders through share repurchase programs. If it was possible to limit the tax holiday if the dollars were not reinvested in America, we might be onto something. Alas, not even The Donald can mandate how companies spend their money.

Myth #5: Share repurchase programs would help EPS growth for the companies that execute them.
Reality: This is true and could be substantial. Following the initial hit to the S&P 500 EPS following the payment to the US "holiday tax fund" (which could be as high as $8-10), the recurring impact to the S&P 500 EPS could be as high as $4-6, if 50-80% (respectively) of the funds are used on repurchase programs.

Myth #6: If companies chose to give the cash back to investors through dividends or share repurchase programs, that won't help the economy.
Reality: Not true. If cash is returned to investors, in reality they only have two options: spend it or save it. Americans in general are not savers – that's a topic for another article. So even if the cash is returned to investors, a large portion of that should find its way into the economy through increased consumption.

As you can see, the one component of tax reform that almost everyone agrees should be done is quite nuanced. Makes my head hurt.

On balance, would repatriation be a positive? Yes, by raising tax revenues, bringing foreign earnings back to the US (either US companies or investors), potentially boosting the EPS of the large multi-national companies in the S&P 500, etc. Is this the golden ticket? Would it solve world hunger? Nope. Gotta look deeper for that.

Mark is a co-founder of Lanier Asset Management and serves as its Chief Executive Officer. Prior to founding Lanier, he was a partner at The Boston Consulting Group. Mark is an honors graduate of The University of North Carolina at Chapel Hill with a BA in Economics, and holds an MBA from The Harvard Business School.

Key Points From Our Investment Meeting – 5/9/17

Macro Viewpoint

- S&P 500 earnings growth rises above expectations as multinationals and technology take the lead.
- First quarter GDP growth comes in below 1%, yet the market continues to all time highs?
- We are entering the 9th year in this economic cycle without a bear market. Be careful and consider low to negatively correlated assets.

Asset Class Comments

- Momentum continues to push the US equity markets higher; do historical models work anymore?
- The 10-year treasury yield has dropped by ~25 bps since the beginning of the year. Consider shortening duration and reducing credit risk.
- Developed foreign and emerging equity markets seem to have found their footing as some investors look outside the US for gains.

Performance Update

		Total Return (%)							
						Annualized			
	Investment Vehicle	April	QTD	YTD	1-Year	3-Year	5-Year	7-Year	10-Year
TRADITIONAL ASSETS									
Cash									
Vanguard Reserve Prime Money Market		0.0%	0.0%	0.1%	0.5%	0.3%	0.2%	0.2%	0.8%
Fixed Income									
Domestic (Barclays US Agg)		0.8%	0.8%	1.6%	0.7%	2.6%	2.2%	3.3%	4.2%
Vanguard Total Bond Market	VBMFX	0.8%	0.8%	1.6%	0.7%	2.5%	2.1%	3.3%	4.2%
Eaton Vance Floating Rate	EIBLX	0.4%	0.4%	1.9%	8.5%	3.7%	4.1%	4.4%	3.8%
US Preferred Stock ETF	PFF	0.8%	0.8%	5.9%	4.8%	5.4%	6.0%	6.5%	4.3%
High Yield (Barclays US Corp HY)		1.0%	1.0%	3.3%	11.8%	4.4%	3.2%	4.3%	5.1%
Short Term High Yield	SJNK	1.3%	1.3%	3.3%	12.4%	-	-	-	-
Equities									
Domestic Large Cap (S&P 500 TR)		1.0%	1.0%	7.0%	17.8%	10.4%	13.6%	12.8%	7.1%
S&P Equal Weight	RSP	0.7%	0.7%	5.9%	16.3%	9.3%	13.9%	12.8%	7.7%
Domestic Mid Cap (S&P 400 TR)		0.8%	0.8%	4.8%	20.5%	10.0%	13.4%	12.8%	8.7%
Vanguard Mid-Cap ETF	VO	1.2%	1.2%	7.4%	17.5%	9.4%	13.3%	12.6%	7.6%
Domestic Small Cap (S&P 600 TR)		0.9%	0.9%	2.0%	24.3%	10.6%	14.6%	13.5%	8.6%
Vanguard Small-Cap ETF	VB	0.9%	0.9%	4.6%	20.5%	8.6%	13.3%	12.2%	8.0%
Developed Intl. (MSCI EAFE)		2.5%	2.5%	10.0%	11.3%	0.8%	6.7%	5.3%	0.8%
MSCI EAFE	EFA	2.4%	2.4%	10.5%	12.6%	0.7%	6.7%	5.4%	0.8%
Emerging Intl. (MSCI EM)		2.2%	2.2%	13.9%	19.1%	1.8%	1.5%	1.8%	2.5%
Vanguard FTSE Emerging Markets ETF	VWO	1.6%	1.6%	12.9%	18.5%	2.3%	1.7%	2.0%	2.5%
Real Assets									
Real Estate (FTSE NAREIT US REIT)		0.5%	0.5%	2.9%	6.1%	8.6%	9.4%	11.0%	4.5%
Mortgage Real Estate	REM	3.6%	3.6%	14.2%	31.7%	9.4%	9.0%	8.2%	-
REIT ETF	VNQ	0.2%	0.2%	1.1%	5.7%	8.8%	9.2%	11.1%	5.0%
Commodities (Thomson Reuters/Jefferies CRB Index)		-3.1%	-3.1%	-6.7%	0.2%	-19.4%	-11.9%	-7.4%	-6.4%
DBC	DBC	-2.7%	-2.7%	-6.6%	1.5%	-18.7%	-11.2%	-6.3%	-5.5%
Gold	GLD	1.7%	1.7%	10.2%	-2.3%	2.9%	-2.8%	1.4%	7.2%
DIVERSIFYING STRATEGIES									
Hedge Funds									
HFRI WCI		0.6%	0.6%	2.9%	8.1%	3.1%	4.3%	3.8%	3.2%
INFINITY*	OCEAN	0.1%	0.1%	1.5%	6.8%	5.6%	7.4%	6.9%	6.4%
Boston Partners Long/Short Equity	BPLEX	-2.6%	-2.6%	-3.1%	6.6%	4.0%	6.8%	8.2%	9.9%
QIM Tactical Aggressive*	QIM TA	9.2%	9.2%	34.1%	43.1%	22.0%	15.6%	16.1%	19.8%
Hedge Fund Plus*	HF+	1.4%	1.4%	6.6%	13.8%	8.9%	9.4%	9.4%	10.4%
Boston Partners Global Long/Short	BGLSX	0.0%	0.0%	1.9%	5.5%	3.5%	5.0%	4.3%	3.6%
Managed Futures									
Barclays CTA Index		1.7%	1.7%	0.6%	3.2%	4.1%	1.8%	1.7%	3.4%
WINTON*	WINTON	-1.1%	-1.1%	-1.2%	-5.1%	-0.7%	-1.3%	-0.5%	2.3%
QIM*	QIM	-0.4%	-0.4%	3.9%	11.5%	6.9%	2.1%	1.3%	3.4%
AQR Managed Futures Strategy	AQMNX	-2.0%	-2.0%	-2.9%	-10.8%	1.7%	2.3%	1.2%	3.1%
Natixis ASG Managed Futures Strategy	ASFYX	-0.7%	-0.7%	-0.2%	-8.9%	4.6%	3.4%	3.2%	4.4%

= Benchmarks
= Lanier Selections

* For Accredited Investors

Our Team

Mark R. Hoffman
CEO, Principal

Junius V. (Trip) Beaver, III
Co-Chief Investment Officer, Principal

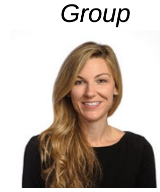
Carl W. Hafele, CFA, CPA
Co-Chief Investment Officer, Principal

John E. Thompson
Director, Private Client Group

Dr. Daniel L. Bauer
Financial Consultant

Sara B. Thomas, JD, CPA
Financial Consultant

Deidre M. Durbin
Chief Compliance Officer

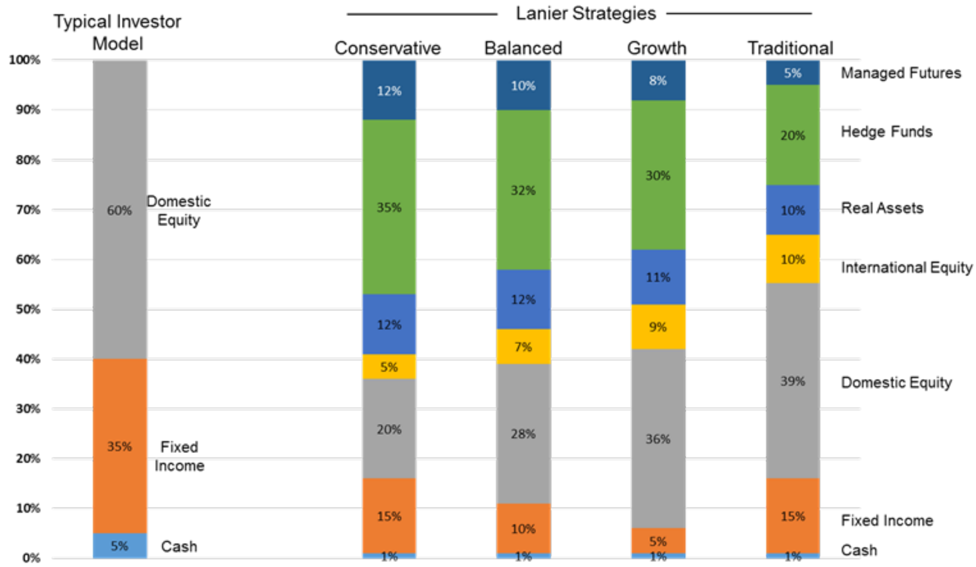


Stephanie E. Milby
Investment Associate

Building Confidence and Security in Your Financial Future

Our Approach

At Lanier, we believe that portfolios designed to deliver superior performance and lower correlation with the overall markets must decrease reliance on stocks and bonds and be complemented with a set of diversifying strategies and alternatives



Each of our clients has a unique set of needs (based on age, risk tolerance, income need, etc.) and an asset allocation model designed specifically to meet those needs. Consequently, actual client investment models can and do vary from the allocation percentages listed above.

Lanier Asset Management is an independent Registered Investment Advisory firm. Our mission: ***To Build Confidence and Security in our Clients' Financial Future***. We use an open architecture investment structure to combine the best of proprietary and independent investment strategies. At Lanier, we deliver superior service and performance to our clients as a result of four distinguishing elements:

- **People**: we are an independent firm, providing objective advice from experienced investment professionals working in your best interests
- **Investment Philosophy**: we seek to smooth investment returns, providing superior investment performance and a significantly lower correlation to the overall market
  - Focus on projected returns rather than historic for all asset classes
  - Similar to the largest U.S. endowments
- **Investment Process**: combine active and passive management in traditional asset classes; complement with diversifying strategies/ alternatives
- **Conviction**: we believe in our approach – this is how we invest our own money