Trust Company *of* Vermont Quarterly Update

July 2019

Brattleboro ◆ Burlington ◆ Rutland ◆ Manchester ◆ St. Albans

Employee-owned & Vermont-based www.tcvermont.com

Why is Our Employee Ownership Important to You?

CHRISTOPHER G. CHAPMAN, TCV PRINCIPAL

We proudly state on our website and in many of our documents that we are an employee-owned company. The question may arise: so what?

For us, it means a great deal. The arrangement, in which almost all of our company's stock is essentially owned by the employees themselves, actually has a significant impact on our clients – in favorable ways. An explanation can begin with a tale about our ESOP – that is, our Employee Stock Ownership Plan, which we adopted eleven years ago.

An "ESOP" Fable

Not long ago, and not very far away, long-time local banks were bought up by regional banks and merged into much larger organizations. Employee turnover soared, costs to customers and trust clients rose, and many important relationships began to be serviced by people who customers and clients had never met and who sometimes did not stay in place very long.

The new ownership entities expected the employees who remained after downsizings to generate more revenue for them, which led to decreases in service quality. In Vermont, that also meant capital was sucked away to be used for expansion in larger, urban markets, leaving much-reduced operations to serve customers. The bank merger trend was part of a larger national phenomenon, not only among all kinds of financial service providers but in all areas of the economy.

Along the way, small companies that did not want to be vulnerable to takeovers began to take advantage of an interesting feature of federal law that was enacted in 1974 to protect employee pensions. You may have heard of ERISA, which also protects 401(k) plans from abuse. One type of employee benefit plan with ERISA protections is the employee stock ownership plan, which a company can use to hold stock owned by its own employees.

There is a moral to this story. It sugars off to, take care of your employees, and they will take good care of the business. And that means, its customers will be better served.

Our Story

We want to remain independent into perpetuity. In the financial services business, that means keeping the company stock away from vulnerability to tempting offers and even hostile takeover attempts. In adopting our own ESOP, we also gather our own earnings into it that would otherwise disappear into outside hands as dividends. The result has been a source of long-term savings for employees who can accumulate value for retirement and be motivated to remain.

For our clients – and the communities where we live – the result has been broad. Long-term employees know their clients, and our clients know who is serving them. An old-fashioned value of customer service is preserved. And a form of craftsmanship in our knowledge-oriented business results from ever deeper expertise. For the places where we live, it means our people sink deeper roots into the community.

In short, our employee ownership motivates us to think in the long term, and that is ultimately where the most value is accumulated for our clients. ◆

GREAT THINGS COME IN SMALL PACKAGES

Steve Singiser, Portfolio Manager

My April Newsletter article closed with the following thought: "If Peter Lynch drinks coffee, he probably owns shares of their stock. Who is Peter Lynch and why should we care if he is invested in Starbucks? Some of you may know the answer. For those who don't know, I will answer the question in our July Newsletter."

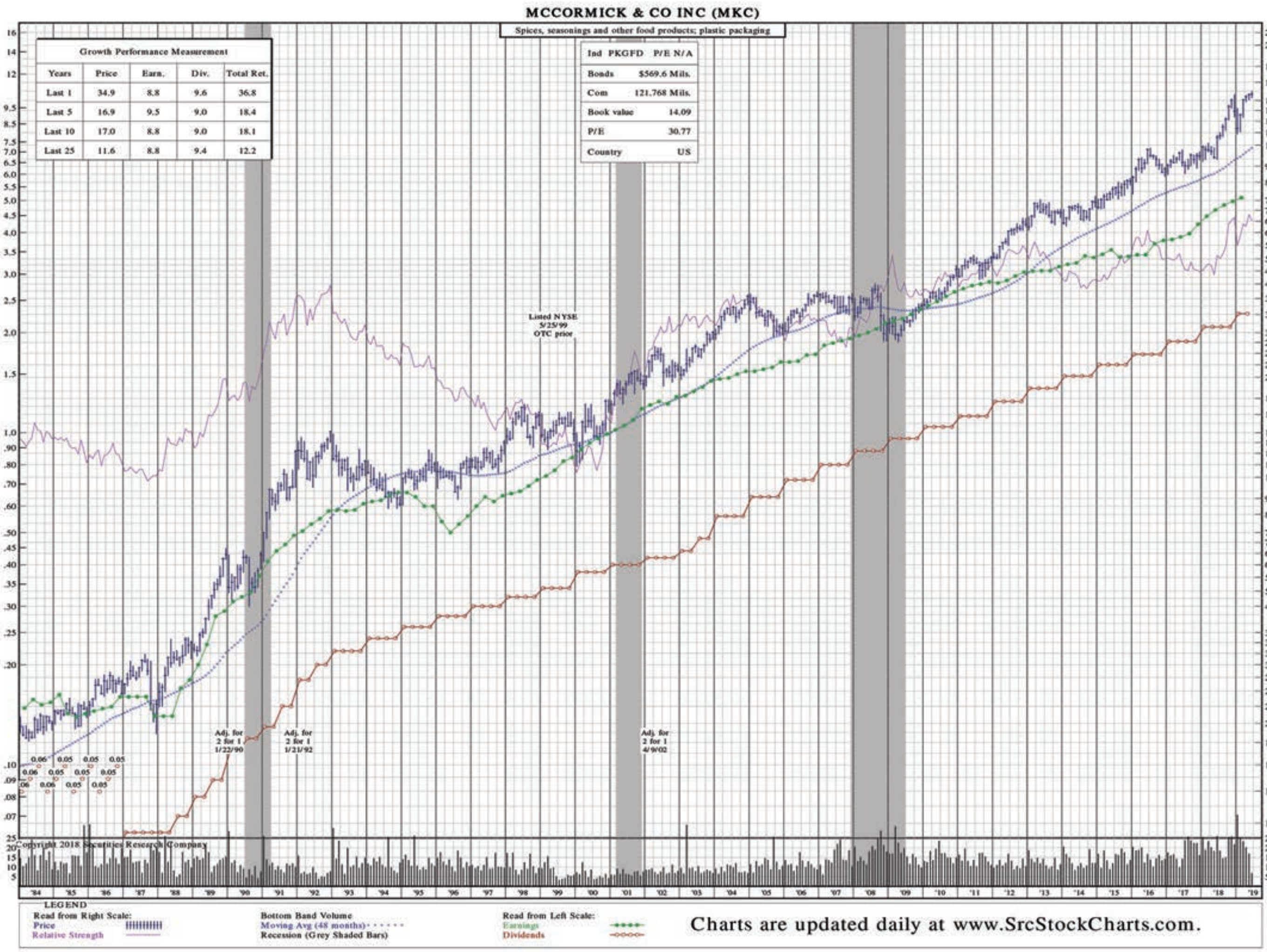
Peter Lynch, a renowned mutual fund manager of yore, embraced an investment philosophy centered on buying shares of companies he knew and understood personally. Like Peter, we may buy their products or use their services. In theory, if our favorable opinions are shared by others, the company will be successful, and the price of their stock will go up. It makes sense, and Peter Lynch's fund was one of the best-performing funds at that time. It was called the Magellan Fund. You may remember it. It still exists, but under different management.

As a successful mutual fund manager, Mr. Lynch would purchase high quality growth stocks such as Eastman Kodak, Xerox, IBM, Singer, Polaroid, or General Electric. But these are the growth stocks of another era.

Now, I want you to look around your house for products you like, purchase, and use, particularly in your bathroom, laundry, or kitchen. In your bathroom you may find Colgate toothpaste or Johnson & Johnson Band-aids; in your laundry you possibly use Procter & Gamble's Tide or Clorox bleach; perhaps, in your kitchen refrigerator you have stocked up on Coke or Pepsi products, or have that little orange box of Arm & Hammer baking soda by Church & Dwight. Maybe there is even a pound of Starbucks Coffee.

These are all great consumer products made by companies that have been profitable for a very long time. They may still be considered for your portfolio.

I almost forgot. Somewhere in your house, maybe a home office, you have a computer made by Apple or another manufacturer that you use to communicate with friends on Facebook, shop at Amazon, or look for answers on Google. Present day technology stocks fit nicely in a Peter Lynch portfolio.



But you don't have to look any further than your kitchen to find the products of a unique company that has grown successfully for a very, very long time. I cannot think of another company that better defines the concept of 'sustainability', currently a favored term for analyzing attractive investments. Many of its products have been commercially valued and marketed for thousands of years. The company itself was founded in 1889. If you like to cook, you have more than a passing familiarity with their products packaged in small bottles and metal boxes labelled in red, with a distinctive 'Mc'. McCormick & Co. is, of course, the company's name. Spices and seasonings are the company's game.

McCormick Facts

The above chart, published by Securities Research Company, shows the past 35 years of McCormick's performance as an investment. Besides plotting the stock's historic price gains, the growth of earnings is shown in green and growth of annual dividends in red. It is very impressive.

The company was founded in 1889 by Willoughby M. McCormick with three young employees. It operated out of a cellar and sold fruit syrups, root beer, and flavoring extracts door-to-door. Over the past 130 years the company's internal growth has been augmented by numerous acquisitions: French's and Lawry's are two familiar brands. Currently, they employ 12,000 employees, and sell their products worldwide in 150 countries. In 1921 McCormick built a landmark headquarters in Baltimore, MD, and in 1941 they trademarked the very familiar "Mc" corporate symbol. The Company's stock was added to the S&P 500 index in 2003.

Total returns to shareholders have been 14% or more for the past 1, 5, 10, and 20-year periods. Dividends have increased every year for the past 33 years, and a dividend has been paid for 93 consecutive years. During the most recent 25-year period, both earnings and dividends have consistently grown at about 9% annually.

This year, McCormick was ranked 22nd in the '2019 Barron's 100 Most Sustainable Companies' list drawn from a field of the 1000 largest publicly owned stocks. The rankings were based on an analysis of performance in the areas of shareholders, employees, customers, planet, and community. McCormick is a great company on many levels.

Spice Facts

It cannot be overstated the role spices played in opening trading routes - on land and by sea, from ancient times through the middle ages - facilitating commercial trading of many products between the Far East and Europe before there were other means of transportation. Spices were the catalyst, even though

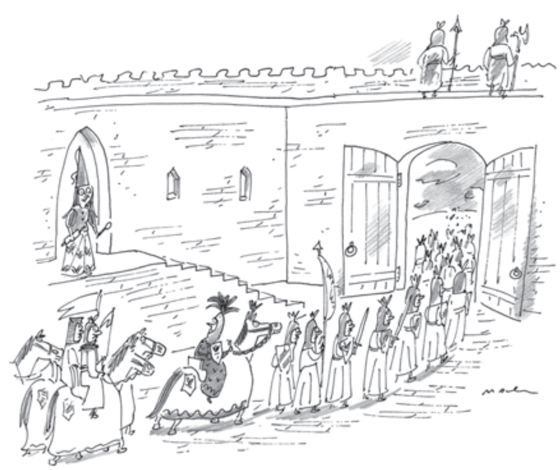
the network of trading routes is commonly referred to as The Silk Road. Caravans, Marco Polo, camels, bandits and general mayhem were all part of centuries of spice trading stories that have been overly romanticized by our imaginations.

Vanilla extract, taken from an actual vanilla bean, is considered superior to artificial vanilla flavorings and it costs nearly twice as much. It grows on a vine in a limited number of tropical regions. The species is Vanilla planifolia. It is actually an orchid. No other orchid species produces the same wonderful flavor and aroma. It is my favorite.

Cumin seeds were thought to enhance fidelity and were sometimes an ingredient in aphrodisiac potions. Young women used cumin as an ingredient when baking bread for their sweethearts to ensure their return.

Saffron is probably the most expensive of all spices or seasonings by weight and is sold to consumers in small quantities. An ounce of saffron might retail for close to $300. It grows best in what is called a Persian climate. It takes over 4000 saffron flowers to produce an ounce of the final spice. Use it sparingly. In ancient times it was used as a perfume, a dye, and for medicinal purposes. Because of its high price, it is sometimes called 'red gold', yet is not nearly as expensive as real gold selling at about $1,340 an ounce.

Where I live, large quantities of what we call 'liquid gold' is produced. When bought by the quart, it sells for only $0.60 an ounce. It is, of course, Vermont Maple Syrup. In recipes, on pancakes or waffles, however, "It is worth its weight in gold." Bon Appétit!



"If I really didn't need nutmeg do you think I'd ask you to go out and get it?"

Did Vermont Just Make Estate Planning Easier?

Jack Davidson

Estate Planning 101

Many lawyers have been promoting living trusts to save estate taxes, coupled with the added benefit of avoiding the probate court. The primary focus was saving federal taxes and, secondarily, Vermont estate taxes. The tax savings for married couples focused on doubling the exemption.

Then the tax rules started to change. The federal exemption increased and allowed "portability" of the exemption, and a trust was no longer needed to double the exemption. Now, a married couple holding all assets in joint name, based on the exemptions available in 2019, would face no taxes for estates equal to or under $22,800,000 (in 2026 it will revert back to an inflation adjusted "old" exemption, but estates will still be sheltered in the 12 million range).

Trusts were still promoted to save the Vermont estate tax, and Vermont does not allow "portability". For example, based on the existing exemption of $2,750,00, trusts could save all Vermont estate taxes for married couples up to $5,500,000, but joint accounts will not allow the doubling of the exemption.

Vermont still does not allow portability, but our legislators just increased the exemption. In 2020 it will be $4,250,000, and $5,000,000 in 2021. Moving forward, in Vermont, the living trust may no longer be needed if the projected estate is below 5 million. The estate plan may be as simple as having a joint account. No longer will we need multi-page incomprehensible trusts documents of legalese? Yes and No.

Estate Planning 201

Many years ago I met a newly married couple. The wife's first husband had died prematurely and she received an inheritance. She then met and married a man who reminded me of the actor Cary Grant because he dressed like Cary Grant. For those that might not know Cary Grant, his selection of suits in the movies of the forties were timeless...even in the eighties.

The couple opened up an investment account in joint name. A few months later I received a call from "Gary" requesting a sizable distribution. Joint Accounts, unless specifically stated otherwise, allow either owner to withdraw. I pondered. Should I call his wife? Does this suggest I don't trust him? Pondering may sometimes be a positive trait for procrastination. In this case, it saved the day. A few days later, while walking downtown, I met his wife. I mentioned the pending but unfulfilled distribution. She knew nothing about it and it was her money. The relationship ended.

Spouses often create joint accounts. Either can withdraw and, upon the first death, the balance will now be held by the survivor. But are joint accounts effective for spouses? It makes it easy for one spouse to pay the bills for both spouses, and it avoids the probate process for joint assets when the first spouse dies, assuming that that he is not "Gary". Well, yes and no.

Estate Planning 301

Spousal joint accounts may lose half of the "step up in basis" for assets that have grown in value in contrast to holding the asset in the sole name of the owner. If a non-spouse is the joint owner, the damage may be greater. But this is the subject of class 301, perhaps covered in a later newsletter.

Estate Planning 201

Should you have significant assets in a joint account? Based on my past experience, the answer is: don't do it. You may have a higher risk of those who "take the money and run". It will probably not be the spouse or the child.

It may be the second spouse, or creditors. Each joint owner has the equivalent of 100% ownership that will be vulnerable. Joint accounts may have little risk for small checking accounts, but any account with significant value should be handled differently.

Titling the account jointly simply to avoid probate can be achieved without using a joint account. Aside from the risk of those who "take the money and run", if one child is selected as a joint owner for the sole purpose of paying the bills, upon the death of the parent, the other children will not receive the assets unless the joint owner child makes a gift to them to reflect the intention of the parent.

In order to avoid probate without the risk of a joint account, Vermont has two laws that help you avoid probate and avoid using joint accounts: Payable-on-death (POD) designations for banks and trust companies and Transfer-on-death (TOD) registration for securities with brokers. Both will let you be the only owner until death.

Estate Planning 301

When you title an account in joint name with someone other than your spouse, you are actually making a gift of half of its value. You may have to file a gift tax return (Class 301).

Estate Planning 201

Hopefully, you are convinced that placing assets in joint name with children isn't a good idea.

So what should you do if you want your child to be able to transact business on your accounts – particularly if you become disabled and unable to manage your own affairs?

In Vermont we have several ways, and each one is designed to address this issue:

- A durable power of attorney which would allow you to give to a trusted person the authority to transact business affairs on your behalf. You should consult with your estate-planning attorney to determine whether it currently meets your needs.
- Consider a Joint Fiduciary Account (8 V.S.A. § 14212).
- Living Trusts. They don't just pay out. They take care of the next generation, including Special Needs Trusts (Class 401).

Estate Planning 401

Special Needs Trusts are subject to changing laws and the best teacher would be an attorney who specializes in this field.

Estate Planning 101

Often the best choice for a trustee is a corporate trustee. Individual trustees sometimes take the money and run. Corporate trustees are regulated, so you don't have to worry that they will take the money and run. That said, give the beneficiaries the ability to change the corporate trustee to another corporate trustee. As corporate trustees consolidate, they will not take the money and run; corporate trustees don't run....but often they will increase fees and reduce services.