MP McShane Partners

January 2023 Insights

Investment Overview

What is on the Horizon in 2023

The culmination of coincident declines across major asset classes (e.g., fixed income, global equities, etc.) throughout most of 2022 was as frustrating and perplexing for portfolio managers as it was unpleasant for investors over the past year. The silver lining of the current investment landscape is that fixed income markets appear to have stabilized and proving incrementally investable, with fixed income assets (i.e., bonds) trading at relatively attractive yields and offering coupons that are increasingly appealing to investors. Alternatively, U.S. equity markets still appear vulnerable to a myriad of risk factors that could weigh on near-/intermediate-term performance, and these headwinds warrant serious and careful consideration by investors at this stage in the market cycle.

Given an innate desire to start the New Year on a relatively optimistic note, the Investment Team believes that a compelling case for closing our long-held underweights in Fixed Income allocations materialized during the second half of 2022 ("2H22") alongside a discernable deceleration in inflation data, a noticeable moderation in the ongoing interest rate hiking cycle, and yields on high-quality, investment-grade bonds hitting multi-year highs, with 10-year U.S. Treasury bond yields hitting **±4.23%** on October 24th 2022. Accordingly, the Investment Team has invited the Head of Municipal Client Portfolio Managers at Nuveen, Purva T. Patel, CIMA®, to come present and speak with McShane Partners' clients about the compelling argument to be made in favor of revisiting fixed income investments, including particularly

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Wealth Advisory Overview

What Is the Medicare Income-Related Monthly Adjusted Amount ("IRMAA")?

For Medicare beneficiaries who earn over a certain threshold, and who are enrolled in Medicare Part B and/or Medicare Part D, it is important to understand the income-related monthly adjusted amount ("IRMAA"), which is a surcharge added to the Part B and Part D premiums.

Since 2007, high-income Medicare enrollees have been required to pay the IRMAA surcharge for Part B coverage. An IRMAA surcharge for Part D premiums took effect in 2011. For Medicare beneficiaries who receive Social Security retirement benefits, the premium for Part B is deducted from their Social Security checks; this is true regardless of whether the person is subject to the IRMAA surcharge or not.

How Is My Income Used in My IRMAA Determination?

IRMAA is determined by income from your income tax returns two years prior. This means that for your 2023 Medicare premiums, your 2021 income tax return will be used. This amount is recalculated annually. You will receive notice from the Social Security Administration to inform you if you are being assessed an IRMAA.

The income used to determine IRMAA is a form of Modified Adjusted Gross Income ("MAGI"), but it's specific to Medicare. The Modified Adjusted Gross Income is different from your Adjusted Gross Income, because some people have

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Points of Interest

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attractive opportunities in North Carolina municipal bonds. The following review of the bond market cycle should prove timely ahead of this exclusive in-person event, the details of which have been included in this month's article and can be found on the next page.

Bonds: A Natural Victim to an Inevitable Rate Hike Cycle

While the Investment Team believes that the tactical underweights to strategic Fixed Income allocations that have been in place over the past several years have helped to mitigate the portfolio-level impact of the recent bond market correction, it is important to provide some context for the disconcerting drawdowns in the U.S. bond market over the past ±18-24 months. As can be seen in Chart I, below, the interest rate and bond market cycles in the U.S. have followed fairly predictable patterns over the past ±30 years, with the broader U.S. bond market, as represented by the Bloomberg U.S. Aggregate Bond Index (i.e., the **teal line**), exhibiting strong negative correlation with changes in interest rates, as represented by the U.S. Federal Funds Target Rate (i.e., the **dark blue line**).

After hitting multi-decade highs in August 2020, the U.S. bond market quickly began pricing in significantly higher interest rates in anticipation of the U.S. Federal Reserve ("the Fed") embarking upon a dedicated hiking cycle to combat

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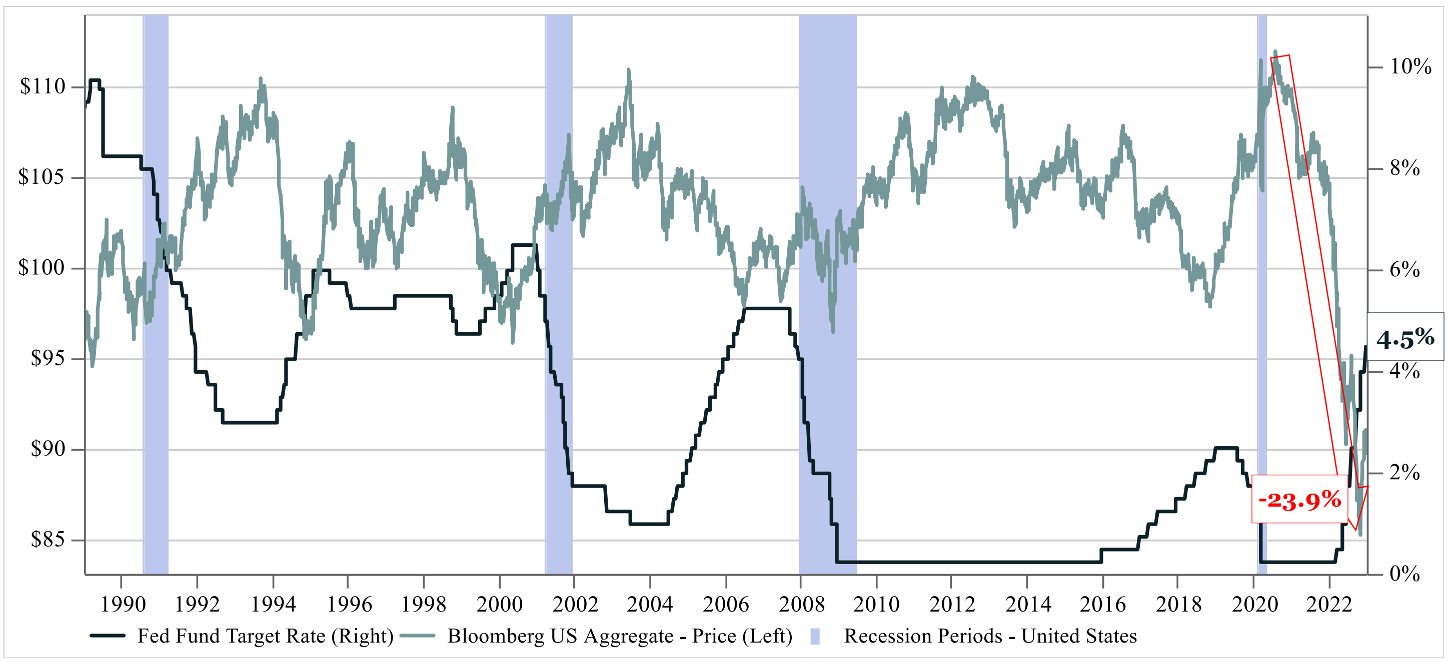
Chart I: Fed Funds Target Rate vs. Bloomberg U.S. Aggregate Index



Source: McShane Partners - FactSet Research Systems, Inc.

Monthly Index Review USD Total Return				
Data as of December 31st 2022	**December 2022**	**2022**	**2021**	**2020**
S&P 500® Index	-5.76%	-18.11%	**+28.71%**	+18.40%
Dow Jones Industrial Average	-4.09%	-6.86%	+20.95%	+9.72%
NASDAQ Composite	-8.67%	-32.54%	**+22.18%**	**+44.92%**
Russell 2000	-6.49%	-20.44%	+14.82%	**+19.96%**
MSCI Emerging Markets	-1.35%	-19.74%	**-2.22%**	+18.69%
MSCI EAFE	**+0.11%**	-14.01%	+11.78%	+8.28%
Bloomberg U.S. Aggregate Bond Index	-0.45%	-13.01%	**-1.54%**	+7.51%

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percolating inflationary pressures by normalizing monetary policy. Bonds remained under steady pressure into year-end and throughout 2021 but experienced precipitous price declines in early-2022 as commentary from the Fed pointed to an accelerated hiking cycle that financial markets had not previously incorporated into interest rate expectations.

After more than a decade of zero-bound interest rate policy ("ZIRP"), the Fed's relatively aggressive approach to tightening monetary policy by increasing the federal funds target rate by 50 and 75 basis points ("bps") fairly early on in the rate hike cycle exacerbated the momentum and severity of any anticipated cyclical correction in the U.S. bond market (**-23.9%**) far in excess of what may have been implied or expected based on historical data from prior interest rate and bond market cycles. For calendar year 2022 ("CY2022"), the Bloomberg U.S. Aggregate Bond Index generated a net negative total return of **-13.01%**; while this may be disappointing for many investors, it is important to consider that the federal funds target rate increased **+1,700%** in CY2022 and now stands at **±4.50%**: its highest level since November 2007. With the Fed having already conducted a significant amount of tightening over the past year, the Investment Team expects that any incremental increases to the federal funds target rate will be more measured and less draconian with respect to financial market conditions, which should invariably be constructive for high-quality, investment-grade bonds.

"With a good perspective on history, we can have a better understanding of the past and present, and thus a clear vision of the future."

- Carlos Slim Helu

Featured Event: Bubbles, Bagels, Bacon, and Bonds

McShane Partners is thrilled to be hosting an in-person discussion with Purva T. Patel, CIMA® from Nuveen the morning of Thursday, January 12th. If you are interested in attending the event or would like additional information, please be sure to email Jada Alston at jalston@mcshanepartners.com at your earliest convenience.

Conclusion: Better than 2022…?

While equity markets may endure additional difficulties as the lagged effects of tight monetary policy continue to work their way through Wall Street and Main Street throughout 2023, the Investment Team takes comfort in the fact that conservative investors should once again be able to earn income on their Fixed Income allocations without having to accept excessive levels of risk to reach for yield within their portfolios. As painful as this process has been for bond investors, the normalization of interest rates has created a much more constructive backdrop for bonds, which should ultimately contribute to enhanced/improved downside protection for diversified investment portfolios in the event equity markets experience excessive drawdown risk through the later stages of the market cycle.

During the course of a normal market cycle, asset classes will experience periods of sustained declines and falling prices; as portfolio managers, we dislike the corresponding negative impact these periods of relative underperformance have on portfolio-level returns but accept that these drawdowns can often create attractive entry points for long-term investors. The future is impossible to predict, but the Investment Team is reasonably certain in one thing: the relatively favorable outlook for and fundamental investment opportunities currently available in Fixed Income as an asset class should make the investment and deployment of new cash much easier in 2023 than it was heading into 2022.

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Stock & Strategy Spotlight

Name	Ticker	December 2022	2022
Rondure New World Fund Inst.	RNWIX	-1.28%	-13.99%

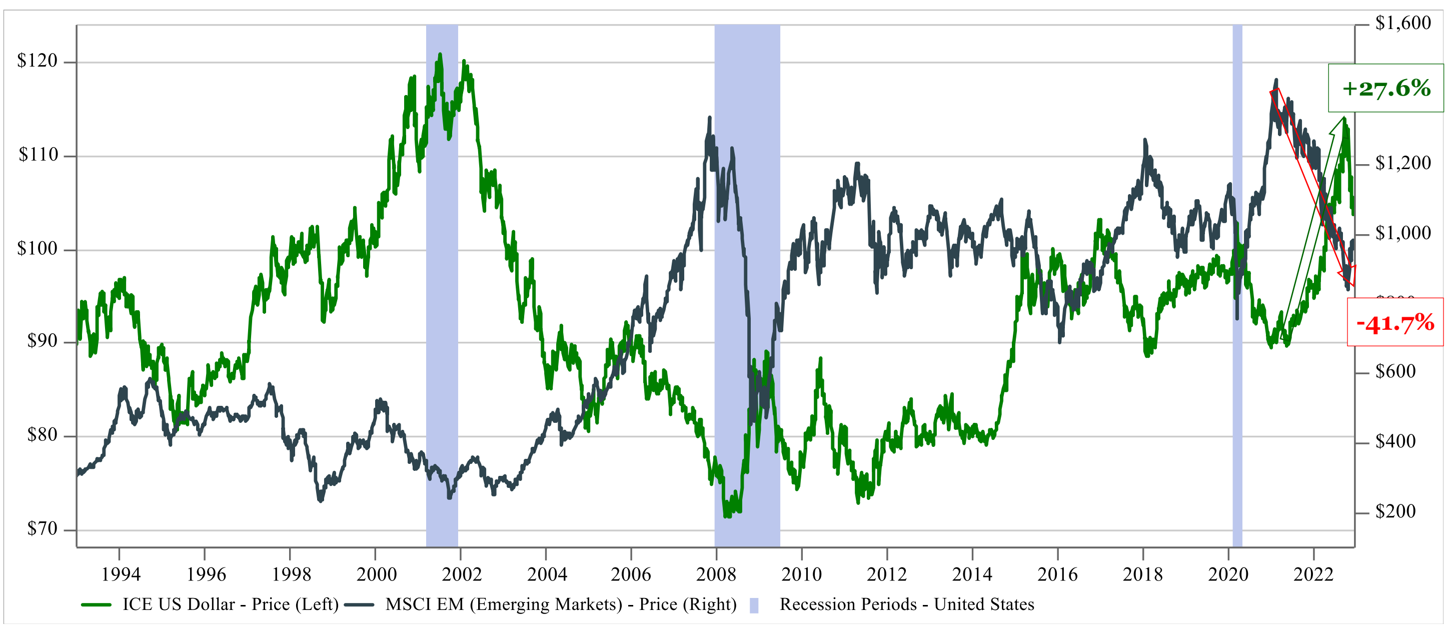
Description & Investment Thesis

The Investment Team recently had the opportunity to catch up with Laura Geritz, Founder, CEO, and Co-CIO of Rondure Global Advisors ("Rondure") and Portfolio Manager of the Rondure New World Fund ("RNWIX"), and spoke with her about recent economic and geopolitical factors affecting emerging market ("EM") equities over the past ±12-18 months, while also getting her thoughts and perspectives on the differentiated risk-reward propositions across various regions, countries, and individual companies within the EM equity universe at this stage in the market cycle. Given the inherent complications of investing in such an inefficient asset class, the Investment Team was eager to hear how ongoing global developments and macroeconomic trends (e.g., COVID-19 policies, monetary policy tightening, etc.) had influenced individual stock selection and portfolio-level positioning during a difficult period for risk assets.

While EM equities may continue to face short-term headwinds, the Investment Team was encouraged by the incrementally optimistic tone of the conversation with Ms. Geritz, with much of the discussion focused on how the high degree of negative sentiment surrounding EM equities has created interesting stock-specific opportunities in several names with high-quality fundamentals and relatively attractive upside/(downside) return potential vs. their respective domestic market ("DM") peers. Moreover, as the U.S. rate hike cycle continues to mature with benchmark interest rates approaching target terminal levels, persistent U.S. dollar ("USD") strength should abate and, eventually, serve as a positive tailwind to EM equity performance, contributing to a constructive intermediate-term outlook for EM equities overall; as can be seen in Chart II, below, EM equities have historically been negatively correlated with the USD, with periods of a weakening USD coinciding with relative strength in EM equities.

Taking that into consideration, the Investment Team believes that a strong case can and should be made for increasing portfolio-level positioning in and exposure to EM equities at this stage in the market cycle, which is why the Investment Team is prioritizing its review of firm-wide positions in RNWIX and other high-quality EM equity

Chart II: U.S. Dollar vs. MSCI Emerging Markets Index (USD Net)



Source: McShane Partners - FactSet Research Systems, Inc.

Wealth Advisory Overview

What Is the Medicare Income-Related Monthly Adjusted Amount ("IRMAA")?

additional income sources that must be added to their AGI to determine their IRMAA-specific MAGI.

How Much are Part B IRMAA Premiums?

The Part B IRMAA premiums for 2023 (for each income range, based on 2021 tax returns, the applicable premium is shown in the right-hand column; for incomes that are subject to IRMAA, the premium shown includes the IRMAA surcharge):

Part B - 2023 IRMAA		
Individual	**Joint**	**Monthly Premium**
$97,000 or Less	$194,000 or Less	$164.90 (No IRMAA)
> $97,000 – $123,000	> $194,000 – $246,000	$230.80
> $123,000 – $153,000	> $246,000 -$306,000	$329.70
> $153,000 – $183,000	> $306,000 – $366,000	$428.60
> $183,000 – $500,000	> $366,000 – $750,000	$527.50
Greater than $500,000	Greater than $750,000	$560.50

As noted above, the IRMAA thresholds start at $97,000 for a single individual, and $194,000 for MFJ filers in 2023. This is a significant increase over the 2022 thresholds, due to high inflation in 2022.

Can I Appeal the IRMAA Determination?

You can appeal the IRMAA determination if you believe that your calculation is erroneous. In addition, if you have had a life-changing event such as a loss of income or divorce, then you can refile or you can file for a redetermination using Form SSA-44.

If you do not agree with a redetermination there is a formalized appeal process, the third level of appeal, technically called the Decision by Office of Medicare Hearings and Appeals (OMHA). (Note that this a different procedure from the appeal or grievance procedure when you receive denials of service from Medicare Parts A, B, or D.)

The SECURE Act & IRMAA

Further complications have been introduced as a result of the SECURE Act (Setting Every Community Up for Retirement Enhancement Act of 2019), which was enacted in late 2019. The SECURE Act has a number of different features, such as allowing IRA contributions after age 70½ if you're still earning an income, as well as extending the minimum age that one must receive RMDs (Required Minimum Distributions) from 70½ to 72.

The reason this may be important is that it is possible that delaying receiving RMDs may also reduce IRMAA if your Modified Adjusted Gross Income is close to the limits stated in the tables above. When individuals withdraw from qualified funds such as a 401(k), IRA, or 403(b), these funds are taxable once they are transferred to your individual checking, savings or brokerage account (assuming the retirement account is not a Roth). The amount distributed is added to your taxable income. This additional income will increase your Modified Adjusted Gross Income and may subject you to higher Medicare Part B and Medicare Part D premiums.

Further, non-qualified funds must also be tracked because of the way that mutual funds capital gains and dividend distributions are made. At the end of every year, many mutual funds distribute capital gains or dividends to those with mutual fund holdings. As a result, people can unknowingly earn more income from their investments, and the result can be higher Medicare premiums.

We recommend that you speak with your Wealth Advisor if you have questions about your specific circumstances, including investment income or your plans to withdraw money from your retirement accounts. Understanding how IRMMA works is a key part of your financial planning, as well as having a good understanding of how to appeal an IRMAA determination in case you experience a life change that reduces your income.

Senior Planning: New RMD Rules for 2023

Lorri Tomlin, FPQP™
Partner | Wealth Advisor

In 2019 the SECURE Act changed many rules regarding IRAs including the beginning age for Required Minimum Distributions (RMDs). At that time the required age to begin taking distributions from individual retirement accounts (IRAs) was 70 ½. The SECURE Act changed it to 72. The SECURE Act 2.0, recently signed into law, again contains many changes designed to help Americans save for retirement. Most provisions of the SECURE Act 2.0 won't go into effect until 2024 or later. However, one change, that will go into effect January 1, 2023, is the required minimum distribution age which will increase again from 72 to 73. If you turned 72 in 2022 or earlier, you will still be required to continue taking RMDs. Only those who turn 72 in 2023 get to delay taking RMDs another year. Also included in SECURE Act 2.0 is a provision that will likely increase the minimum age again in 2033 to age 75.

Retirement accounts were created to encourage Americans to save for retirement by offering tax-deferred or tax-free growth. To make sure that people eventually spend these accounts to fund retirement, the government established mandatory beginning dates for required minimum distributions. By pushing the RMD age back along with other provisions, the SECURE Act 2.0 enables Americans to save longer. Given today's longer life expectancies, this makes sense.

However, delaying RMDs may not help everyone. Some retirees may be forced to take larger withdrawals due to the larger account balance resulting from more time to grow. This could have tax implications. RMDs are taxed as income and taking a larger distribution can bump you up into a higher tax bracket resulting in more of your social security benefit being taxed and higher premiums for Medicare Parts B and D.

The delayed RMD age does give retirees more options. You can always take distributions before age 73 (and eventually age 75). The delay also gives seniors more time to convert traditional IRA assets to a Roth IRA before RMDs begin.

Some other SECURE Act 2.0 provisions that become effective in 2023 are:

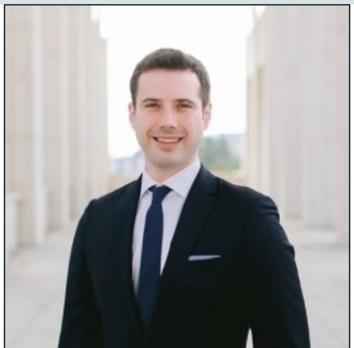
<u>Removes Pre-Death RMDs from Roth 401(k) and 403(b) Plans</u>: Currently Roth 401(k) and 403(b) accounts are subject to RMDs. Roth IRAs are NOT subject to RMDs. To avoid RMDs, Roth 401(k) and 403(b) accounts could be "rolled" into a Roth IRA. The SECURE Act 2.0 removes pre-death RMDs from Roth 401(k) and 403(b) plans therefore eliminating the need to do this.

<u>Reduces Missed RMD Penalty Tax</u>: Currently the penalty tax for a missed RMD is 50% of the distribution shortfall. The SECURE Act reduces the penalty to 25% and, if the RMD is corrected in a timely manner, the penalty is reduced again to 10%.

2022 Office Schedule

Monday, Jan. 16	*Martin Luther King, Jr. Day*
Monday, Feb. 20	*President's Day*
Friday, April 7	*Good Friday*
Monday, May 29	*Memorial Day*
Monday, June 19	*Juneteenth National Independence Day*
Tuesday, July 4	*Independence Day*
Monday, Sep. 4	*Labor Day*
Thursday, Nov. 23 & Friday Nov. 24	*Thanksgiving*
Monday, Dec. 25	*Christmas Day (Observed)*

NextGen: New Year Checkup



Ryan Vaudrin, CFP®
Wealth Advisor

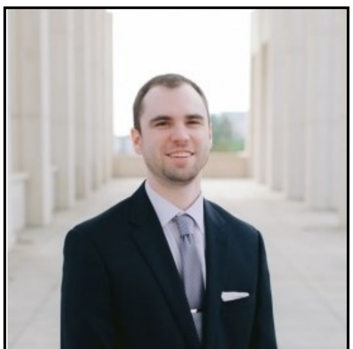
As we are start the new year and set our New Year's Resolutions, consider adding a personal finance review to the list. 2022 included high inflation rates and a volatile year in the stock market. To stay on track for 2023, it's important to review your personal finances and ensure that you're prepared to take advantage of all available savings opportunities.

This year, we have experienced the rising cost of everyday items. Revisiting your budget with the price increases can help determine if anything needs to be revised from 2022. During the budget analysis, check if your emergency fund needs to be replenished. Depending on the situation, we recommend having 3-6 months of cash available for those unexpected expenses. While budgeting, think of any larger expenses such as replacing appliances or a big trip that you can save for in advance. Saving for these items over time can be easier and relieve stress.

We witnessed that 2022 offered an interesting market to navigate and to find new investment opportunities. With the market volatility, we recommend revisiting your 401(k) options. Do you need to rebalance the portfolio? Are there any new investment options available? Are you taking advantage of the company 401(k) match, or should you increase contributions? For 2023, the contribution limit has increased to $22,500 annually in addition to a $7,500 catch up for individuals age 50 and older. In addition to reviewing contributions guidelines, are you able to make a personal retirement contribution? These are only some of the questions that need to be asked to ensure you are taking advantage of any offered savings strategies available.

These recommendations are high-level options to get you started on a great path for the new year. For more in depth information, we have written additional articles highlighting budgeting, the importance of saving with a 401(k), and asset allocation. For a more detailed conversation, your team at McShane partners can help create your 2023 action plan!

NextGen: Protecting Your Personal Property



Daniel Hudspeth, CFP®
Wealth Advisor

Personal property includes items typically found within a home – furniture, clothing, electronics, jewelry, etc. A standard homeowner's insurance policy includes a section for personal property coverage, but what happens when the value of this property exceeds the coverage amount? This is where scheduled personal property comes into play.

Scheduled personal property is an elective coverage for specific high-value items. These items are added to a homeowner's policy as an endorsement and are listed separately from other property. Items commonly added as an endorsement may include:

- Jewelry
- Art
- Antiques
- Musical Instruments
- Firearms

Scheduling personal property also provides various advantages when compared to a standard policy. When added as an endorsement, personal property is covered for its replacement value vs. cash value. Standard policies contain category coverage limits along with deductibles whereas endorsements may not. For example, a homeowner's policy states that jewelry is covered up to $2,000 with a $500 deductible – If the jewelry is stolen and is worth $10,000, the homeowner has an $8,000 loss in addition to the deductible. In the same scenario with an endorsement, the homeowner would receive the full value of the jewelry with a reduced or even waived deductible. Scheduled personal property also increases the scope of coverage to protect against accidental loss or damage whereas standard policies may only cover loss due to fire or theft.

Although we don't offer insurance products at McShane Partners, we do perform needs analysis to identify any potential shortfalls within existing coverage levels. As always, please contact a McShane Partners advisor if you would like more information regarding insurance and its role within comprehensive planning.

Around McShane Partners

2023 CFA Society Outlook Dinner

Bubbles, Bagels, and Bonds Event

McShane Partners will host our first official in-person event in our new building at 2150 Park Drive on Thursday, January 12th at 9:00 AM. The event will feature special guest speaker Purva Patel; Head of Municipal Bond Client Portfolio Managers at Nuveen. RSVP here or JAlston@mcshanepartners.com

The Nutcracker Ball

McShane Partners once again was a lead sponsor for The Nutcracker Ball with all profits supporting Baby Bundles which provides necessary care items for mothers in need as they leave the hospital. Daniele and her daughter Rowan were present to participate in the ball and represent McShane at Charlotte Country Club. It was a fun festive evening supporting a wonderful organization.

Dancing with the Stars of Charlotte - Dancing for a Cause

McShane Partners is thrilled to announce that Elliott Van Ness will be participating in the seventh year of *Dancing with the Stars of Charlotte - Dancing for a Cause*, a ballroom dance and fundraising competition featuring Charlotte-area "Stars" and award-winning professional dance partners, on **February 10th 2023**.

All profits from the event go towards supporting two amazing local non-profit organizations: Carolina Breast Friends and the Go Jen Go Foundation!

We are extremely proud to be sponsoring this event and would invite anyone interested in learning more about the event or contributing to Elliott's campaign to visit his personal fundraising page.

Thank you all in advance for your consideration, generosity, and support!

McShane Partners

Wealth management is our only business; therefore, our attention is undivided, and our intentions are transparent.

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