

## INSIDE THIS ISSUE

Page:

- 1 Investment Review and Outlook
- 2 General Guideline for Estate Settlement Process
- 4 Tax Deadlines
- 4 Exchange Bank Declares Fourth Quarter Cash Dividend
- 4 Exchange Bank Promotes Thomas Del Signore, Institutional Trust Officer

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## Investment Review and Outlook

**By Matthew C. Kelman,**

*Vice President & Institutional  
Trust Fiduciary Manager*

The third quarter of 2021 saw a return of volatility to the global economy and financial markets as the Delta variant of the COVID-19 virus caused a new wave of infections to span the globe, while supply chain issues continued to persist due to regional lockdowns and labor shortages in much of the world. Meanwhile, corporate earnings growth continued to accelerate while governments and central banks continued to pump stimulus funds into their respective economies.

Global equity markets generally saw a flight from risk during the early part of the third quarter that, along with a strengthening dollar, allowed U.S. equities to outperform their international peers. Continued increasing vaccination rates, particularly in western-Europe caused developed markets to outperform their emerging markets peers, where COVID-19 infections continued to wreak havoc on global

manufacturing supply chains.

Domestically, mega cap growth companies continued their market dominance, with small caps and value stocks underperforming.

Fixed income markets continued their recent volatility during the third quarter as the cross-currents of surging inflation from goods' supply-demand imbalances overlaid against fluctuating infection rates caused expectations for central bank actions to shift forward during the quarter.

Expectations for the U.S. Federal Reserve to begin the taper of their Treasuries and Mortgage-Backed securities purchases (currently running at \$120 billion/month over maturities and MBS paydowns) are now priced into markets to begin by year end, with net purchases most likely to be wrapped up by around the middle of 2022. The net result by quarter end was a very small bear steepening, with a couple of basis points shift upward across the curve, causing the 2-10 year U.S. Treasury spread to expand by about 4 basis points from 1.20% to 1.24%.

### MARKET PERCENTAGE TOTAL RETURNS AS OF SEPTEMBER 30, 2021

Index	Q3 2021	One Year	Five Years (annualized)	Ten Years (annualized)
Bloomberg U.S. Aggregate Bond Index	0.05	-0.90	2.94	3.01
S&P 500 Index	0.58	30.00	16.90	16.63
Russell 2000 Index	-4.36	47.68	13.45	14.63
MSCI EAFE Index	-0.45	25.73	8.81	8.10
MSCI Emerging Markets Index	-8.09	18.20	9.23	6.09

Looking ahead, the path of least resistance for markets and the global economy, barring a change in the course of the coronavirus pandemic caused by additional virus variants, appears to be a continuation of improving economic data, improvements in supply chain issues and moderating inflation over the next few quarters. Possibilities of additional fiscal stimulus also provide upside “risks” to the outlook as well. As economic data and corporate earnings continue moving forward, increasing debt defaults look unlikely and should allow for a continuation of a risk-on move in markets, with the caveat that as long as the COVID-19 virus circulates, possibilities of resurgences could provide the impetus for a risk-off move at any time. As such, a continued focus on the long-term goals of our clients continues to be our preeminent concern as the future is anything but certain.

## General Guideline for Estate Settlement Process

### Emily Menjou

*Vice President & Personal Trust Fiduciary Manager*

Exchange Bank has been acting as successor trustee and executor since our trust powers were granted in 1963, and we have settled many complex estates over this time. Although there are many reasons why individuals may select a community bank trust department to handle this complicated responsibility, many individuals opt for a friend or family member instead. As a reader of this newsletter, you may personally be named to settle the estate of a loved one. Should you choose to carry out this duty, below I'll share a general roadmap for the process to guide you along the way.

#### Initial Steps:

- Locate and study will, trust and amendments. Meet with family and family advisors as requested or necessary.
- Change mailing address to forward mail to successor trustee.
- Send required notice to beneficiaries as required by the CA Probate Code when a trust becomes irrevocable (Probate Code section 16061.7). This is usually done by an attorney.

- Apply for Tax Identification Number in name of Administrative Trust. This can be done online at [www.IRS.gov](http://www.IRS.gov).
- Compile list of estate assets.
- Keep a record of everything you do. This will be very helpful when you prepare your required accounting to the beneficiaries.

#### Investment Assets/Estate Management:

- Open bank account in name of Administrative Trust or Estate, and use this account to pay the decedent's bills and expenses of the trust/estate administration.
- Close out and transfer decedent's bank accounts to Administrative Trust or Estate account, taking care not to commingle your personal funds with those of the trust/estate.
- Establish market value of assets on date of death for tax reporting purposes.
- Collect dividends, interest and other estate income and post accurately.
- Analyze the trust/estate cash needs and consider whether liquidation of investment accounts is appropriate if distributions are to be issued in cash to beneficiaries.
- If there is an IRA that names the trust/estate as beneficiary, work with CPA to get clear understanding of options for distribution, and tax implications of each option.

#### Personal Property:

- Inventory personal property, and take photos to document the items.
- Collect and safeguard valuables if appropriate.
- Obtain valuations if estimated value warrants cost of appraisal.
- Items must be gifted as specified in trust and/or will. If not specified, items may need to be divided amongst remainder beneficiaries, and/or sold with proceeds to the trust. If items are not suitable for sale, may need to be donated or otherwise disposed of.

#### Real Estate Assets:

- Obtain date of death valuation for tax purposes.
- Ensure adequate insurance & maintenance of property.
- If property is to be sold, consult with real estate professionals to carry out sale.

- If property is to be distributed to beneficiaries, work with legal counsel for necessary legal documentation.

**Tax Reporting:**

- Collect and retain tax related information for decedent and trust/estate.
- Work with CPA to file final income tax return for decedent.
- Work with CPA to file fiduciary income tax returns for trust or estate.
- Determine necessity of estate tax return and generation skipping transfer tax returns, and file if necessary.

**Accounting to Beneficiaries:**

- Maintain detailed records of all transactions.
- Submit periodic progress reports to beneficiaries as estate settlement progresses.
- For trusts, a detailed accounting is required at least annually to all beneficiaries.
- For estates, an accounting will be provided to beneficiaries through the probate process.

**Distribution:**

- Beneficiaries should be advised that a typical trust/estate settlement process takes between 6-12 months, and distributions are generally not issued until the settlement is complete.
- Issue distributions to beneficiaries per terms of trust or estate. For a probate estate, distributions are not issued until approved by the court.
- Obtain distribution receipts for all distributions.
- Consider holding back a reserve for final or unexpected expenses.

**Trustee and Executor Compensation:**

A successor trustee is entitled to compensation as set forth in the decedent's trust document. If the trust document does not specify a fee for the successor trustee, California Probate Code provides that successor trustees are "entitled to reasonable compensation under the circumstances". Some successor trustees track their time spent and charge an hourly rate for their services, while others charge a percentage based fee on the value of assets. It is important to keep record of your actions, so that you can justify your compensation.

In a probate administration, the executor's fee is determined by state law. In California, both the executor and the executor's attorney are entitled to compensation based on the value of the estate.

**Is an Attorney Needed?**

When acting as successor trustee or executor, you have a fiduciary duty to administer the estate fairly and without conflicts of interest, excessive costs, or unnecessary delays. While not required, working with an attorney who specializes in estate planning can help to make the process as smooth as possible for all parties involved, and can help to minimize risk for the executor or trustee.

In addition to an attorney, you may wish to consult with other professionals, including an accountant or realtor to help with specialized issues in the estate settlement process. Such issues may include tax return preparation and filing, accounting for estate debts and expenses, collecting insurance and pension benefits, and selling estate or trust owned real estate.

**In Conclusion...**

Estate settlement is a complex process. Every trust and estate administration is as unique and multi-faceted as the families involved, and for this reason, there are often curveballs and unknowns that come up along the way. If you are asked to serve as successor trustee or executor, carefully consider whether you have the time and ability to carry out the tasks involved, and reach out to your trusted advisors for guidance.

If you are considering naming a friend or family member to settle your own estate, consider whether he or she has the time and ability to carry out the tasks involved. As always, Exchange Bank is here to assist, either as your fiduciary or to point you in the right direction.

\*The statements and opinions in this article are for general information only and should not be construed as legal or tax advice. We recommend that you consult your attorney or tax adviser with regard to your individual situation.\*

## Tax Deadlines

### Dear Clients,

It's hard to believe we are already in the fourth quarter of 2021. With year-end fast approaching, another tax season is also right around the corner. We understand this can be a busy and hectic time and we are standing by, ready to assist you. Below is a rough timeline of when you can expect to receive your tax documents from Exchange Bank:

- **1099 Tax Information Statement (for agency accounts and tax reserves):**

The IRS deadline to provide Form 1099-DIOP is February 15, with an option to extend to March 15. Due to delays at the fund level and complex reporting requirements, we expect to mail the majority of our 1099s by late February with the balance to be mailed in early March.

- **Form 1099-R and 5498 (for retirement accounts):**

If you've received a distribution from your retirement account, your 1099-R will be issued on or before the January 31 deadline. If a contribution was made to your IRA, your Form 5498 will be issued on or before the deadline of May 31.

- **Form K-1 and Grantor Letters (for trusts):**

These forms are a component of each trust's fiduciary income tax return and carry the same filing deadline that you have as an individual (April 18). You should expect to receive your K-1 or Grantor Letter by mid to late March, with a few exceptions to be issued in early April.

We will make every effort to expedite our tax reporting documents in hopes of creating a smooth and easy tax season for all. If you haven't received your tax documents within the time periods specified above, please contact your account officer for a status update. And always, please let us know if you have any questions or if there is anything we can do to help.

### Emily Menjou

*Vice President & Personal Trust Fiduciary Manager*

#### Email Delivery of Wealth Management Update

If you are a client or an estate planning professional and you have changed your email recently, please give us a call so that we can update our records. Print copies will continue to be mailed by request.

We hope you enjoy our quarterly update and musings, and we look forward to continuing our coverage of an array of wealth management topics that can assist you in meeting your investment, retirement, and estate planning goals.

If you would like to be removed from our mailing list, please contact: [ebmarketing@exchangebank.com](mailto:ebmarketing@exchangebank.com).

## Exchange Bank Declares Fourth Quarter Cash Dividend

### Shari DeMaris

*Executive Vice President, Chief Financial Officer*

On November 16, 2021, the Exchange Bank of Board of Directors declared a quarterly cash dividend of \$1.20 per share on common stock outstanding to shareholders of record at the close of business on November 26, 2021. The dividend is payable December 10, 2021. The cash dividend is unchanged from the prior quarter's dividend of \$1.20 per share.

50.44% of the Bank's cash dividend goes to the Doyle Trust which funds the Doyle Scholarships at the Santa Rosa Junior College.

## Exchange Bank Promotes Thomas Del Signore, Institutional Trust Officer

### Matthew C. Kelman

*Vice President & Institutional Trust Fiduciary Manager*



I am pleased to announce that Thomas Del Signore has been promoted to Institutional Trust Officer. Tom has been an integral part of our Institutional Trust team, servicing retirement accounts for more than five years.

Tom is a member of the American Society of Pension Professionals and Actuaries and has obtained the prestigious designation of Qualified 401(k) Administrator. He has a bachelor's degree in Business Administration with an emphasis in Accounting and Finance from Sonoma State University.

Tom has lived in Sonoma County for 13 years after moving here from Los Angeles to attend SSU. His fiancé Sydney was born and raised in Sebastopol, and they are both excited to setup roots in their new home in Cotati.

Please join me in congratulating Tom on his promotion and serving as an officer of Exchange Bank's Trust and Investment Management Department.



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