

THE RISE OF THE INVISIBLE ECONOMY



David Y. Lin, CFA
Chief Investment Officer

The investment industry has come a long way, offering Americans more ways than ever to build wealth. But the rise of alternatives—once the exclusive domain of institutions and the ultra-wealthy—has made it more difficult to cut through the noise and identify what matters. We’ve developed a framework to help.

For most of our country’s history, investing was a gritty, private affair—a high-stakes game based on speculation, physical commodities, and handshake agreements between strangers. The deep, coordinated marketplace we recognize today only began to take shape about a century ago when the federal government started selling war

bonds to the public. Those efforts eventually gave rise to the “Own Your Share of American Business” campaign, which framed public stock ownership not merely as a path to wealth but as a patriotic duty, especially during the Cold War.

In the modern era, it’s become a mark of prestige to be a public company—a signal that a business has arrived with the endorsement of Wall Street’s gatekeepers. Further, everyday conversations

“Private assets are neither inherently good nor inherently bad. Like most things in finance, the answer is ‘it depends.’”

about the economy tend to orbit around market indices and highly visible businesses like Amazon, Apple, and Tesla.

Yet something has shifted right under our noses. The universe of U.S. public companies has collapsed—from roughly 8,000 at the height of the dot-com boom in the second half of the 1990s to fewer than 4,000 today¹. Many thriving companies have simply decided to stay private. At the same time, private credit—meaning loans made outside of public bond channels or the traditional banking system—has grown roughly 20-fold over the last two decades, now

representing approximately \$1.7 trillion in assets globally².

The evolution has brought a wave of new private investment vehicles, fueled by the industry’s savvy marketing and lobbying efforts in Washington to bring them to the wider public. Even the term “alternatives” implies a certain mystique—as if these assets exist in a different dimension of market reality.

That framing has led to both excitement and confusion. Some are jumping in with both feet, lured by promises of high returns with low risk. Others recoil at the lack of transparency, as if these businesses must be hiding something. Our view is more nuanced: private assets are neither inherently good nor inherently bad. Like most things in finance, the answer is “it depends.”

Alternatives Aren't as Radical as They Sound

First, it’s important to recognize that the underlying asset is essentially the same whether you’re investing publicly or privately. Private equity is still equity, and private credit is still credit. Strip away the jargon and you’re left with the same two basic activities that have always driven investment returns: ownership and lending.

To own equity in a company or asset means holding a perpetual claim on its future. If the business grows, so does your investment,

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theoretically without limit. The catch is that equity is a *residual* claim: you only get paid after everyone else—suppliers, lenders, and the tax authorities—has had their share. That’s precisely what makes equity riskier: when a company’s obligations outpace what it makes, the owners have the potential to lose everything.

To own a credit instrument means to act as a lender. You hand over capital for a fixed period in exchange for contractual interest payments and the return of your principal. Your upside is capped—you’ll never earn more than the agreed-upon rate—but you get something valuable in return: seniority and protection. Creditors have a legally enforceable right to be paid before the owners do and can seize pledged assets if the borrower defaults.

When approached with the right framework, equity and debt can both be powerful ways to generate wealth.

Why, Then, Are Companies Going Private?

It’s natural to suspect that companies going private—or finding new ways to borrow—have something to hide. While that may be true for some,

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Public companies report their financials every quarter, face relentless pressure to support their share

price, and must disclose material information—including profit margins and R&D spending—that becomes visible to customers and competitors alike. They also live under the threat of activist investors: outsiders who campaign for strategic changes, often loudly and disruptively. All of this creates serious demands on time, money, and management bandwidth. Thus, many owner-operators prefer to maintain a controlling private stake, keeping them in the driver’s seat of their company’s future.

Meanwhile, public debt carries its own complications. Bonds sold on public markets come with rigid terms. For the corporate borrower, changing those terms—even for good reasons, like adjusting to emerging growth opportunities—requires wrangling consent from thousands of anonymous bondholders. Traditional bank lenders present their own frustrations for borrowers: they can be slow-moving, formula-driven, and unaware of the nuances of how a company truly operates.

The move toward private capital sidesteps many of these headaches. In some respects, it’s a decision to forgo public distraction and red tape for operational freedom. For many companies, that’s a worthwhile tradeoff, especially those with long-term horizons who would rather focus on building lasting value than managing quarterly expectations.

Five Principles for Investing in Private Assets

This all raises the question: are private assets worth your consideration? Our answer is yes, but with clear eyes.

To be sure, we believe public markets should remain the bedrock of most well-constructed portfolios. It’s a large opportunity set that we expect to remain

fertile ground for finding exceptional investments. But ignoring private assets means forgoing a critical and growing portion of the economy. Roughly 88% of U.S. companies with annual revenues above \$100 million are private, and they represent some of the most dynamic and innovative businesses in the country. They also

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include operators of infrastructure assets—those that transport goods, energy, and data to where they’re needed most. These will represent the backbone of the global economy for generations to come, offering a reliable source of both growth and income.

With that said, not all private assets are created equal. Some are higher quality than others, and—critically—the portfolio teams managing them can differ enormously in how they conduct diligence and assess risk. Over our firm’s history, we’ve been deliberate about whom we partner with. Having lived through the good and bad of multiple market cycles, we’ve built our manager selection approach around the following principles:

1. Bigger is not always better. The largest private asset managers

are skilled at raising funds from investors. The flip side of that success is the pressure to deploy all that dry powder, which can lead to undisciplined deal-making. That is, intense competition among the mega funds for the same assets can hurt their ability to negotiate favorable terms. The result is that investors aren't always adequately compensated for the risks they're assuming. In our experience, some of the richest opportunities lie with smaller, specialized managers you

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may have never heard of—those who have quietly fished in less crowded waters that the largest managers overlook because of their size.

2. Investors must demand protections. One of the most troubling trends in private credit has been the rise of “covenant-lite” loans—deals that exclude legal protections that give lenders recourse when a borrower hits trouble. Covenants aren't just fine print—they're the early-warning system that lets lenders intervene before a manageable problem becomes a catastrophic one. Investors should be wary of managers who routinely waive these protections just to win the deal.

3. Look for focused, cycle-tested teams. Investing can look easy in a bull market. What separates the best managers from their peers is how they behave—and how their portfolios hold up—when conditions deteriorate. We favor teams whose track record includes difficult periods and not just a stretch of flattering, easy conditions. We also prefer teams whose asset focus stays firmly within their circle of competence, backed by a deep bench and strong culture, over teams that have quietly drifted into new territory to chase a marketing opportunity.

4. Size your exposure appropriately. Private assets are illiquid by nature and cannot be sold at a moment's notice. Investors should size their positions carefully, keeping enough in liquid reserves to accommodate surprises (whether personal or market-driven) without being forced to sell at the worst possible moment. They should also confirm they're being compensated for accepting illiquidity. With that said, we have found that illiquidity isn't purely a drawback: it can serve as a useful guardrail against emotional selling in the middle of market turmoil that will come to pass.

5. Be nimble. The right investment to make within the capital structure (i.e., debt versus equity) and by asset type (e.g., real estate versus infrastructure) always depends on market conditions and valuation. For example, in some environments, senior debt may offer returns that resemble equity, but with materially less risk. Investors should remain flexible rather than assume that what's worked before will continue to be the best option ahead.

The Road Ahead

Private assets have become a fixture in the investment landscape—fueled by breathless coverage in the press and silky marketing from large institutions. We've long urged clients to approach them with caution. But that same scrutiny should be applied with equal force to public markets, where short-termism, speculation, and high concentration in a handful of names mean that “public” is no guarantee of quality. The goal isn't to avoid one category in favor of the other—it's to be rigorous about both.

At their worst, private assets can be a vehicle for asset managers to extract high fees, dressed up in complex terms and promises of low risk. At their best, they offer access to a broader swath of economic activity, reliable income streams, attractive risk-adjusted

“At their best, private assets offer access to a broader swath of economic activity, reliable income streams, attractive risk-adjusted returns, and genuine diversification.”

returns, and genuine diversification. We've spent years building the proprietary framework and relationships required to tell those apart and welcome a conversation about whether private assets belong in your portfolio. |||||

Sources:

1 World Bank, Listed Domestic Companies
2 Bloomberg, November 2025

CHARITABLE GIFT ANNUITY PROGRAMS: WHAT IT TAKES TO KEEP THE PROMISE



David J. Nelson, CPA
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By combining charitable intent with tax-advantaged lifetime income, a charitable gift annuity (CGA) can work very well for the right donor and for the right nonprofit. But a well-designed gift is only the beginning. Behind every CGA is a contractual payment obligation that a nonprofit must honor for the life of the annuitant, regardless of how markets perform or how the combined pool of CGAs managed by the charity evolves over time. That obligation deserves as much attention as the gift itself.

At Clifford Swan, we work with both sides of this equation. In addition to the wealth management services we provide to individuals and families, we advise and support charitable organizations on their planned giving programs, including investment management, administration, tax reporting, and ongoing monitoring of CGA pools,

charitable remainder trusts (CRTs), and other planned giving vehicles. Conversations about CGAs have become more frequent lately, and for good reason.

Why CGAs Are Back in Focus

Charitable gift annuities are receiving renewed attention from donors, nonprofits, and advisors alike. Maximum payout rates published by the American Council on Gift Annuities (ACGA) have risen meaningfully in recent years, making CGAs more attractive to donors as an income-generating giving vehicle. Beginning in the 2023 tax year, the SECURE 2.0 Act created a valuable opportunity to fund CGAs through a one-time qualified charitable distribution (QCD) from an individual retirement account (IRA). That IRA-funded QCD counts toward the donor's required minimum distribution, creating an

income exclusion as opposed to a below-the-line charitable deduction; this is a meaningful benefit for those who would otherwise face a taxable withdrawal.

For donors seeking a combination of lifetime income and a lasting connection to a cause they care about, the current environment means CGAs are worth a closer look.

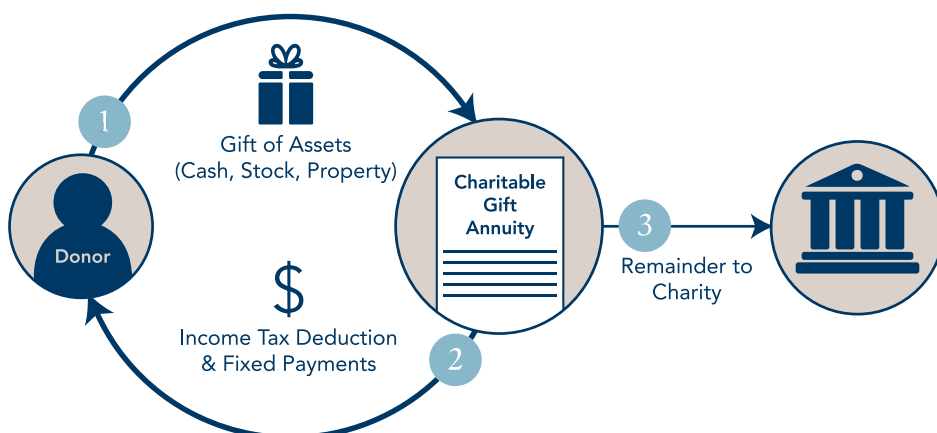
Simple Structure, Real Commitment

The basic structure of a CGA is straightforward. A donor makes an irrevocable transfer of assets (cash, securities, or other property) to a qualified 501(c)(3) charity. In return, the charity commits to making fixed payments for life to one or two annuitants, most often the donor(s). When the annuity obligation ends, the remaining assets support the organization's mission. Most charities follow the payout rates recommended by the ACGA, which set a widely recognized benchmark.

When considering implementing a CGA program, the first question a nonprofit should ask is not, "How much can we raise through CGAs?" A better question is, "Can we commit to running a sustainable CGA program over the long term?" The most important consideration for nonprofit leaders is not the simplicity of a single CGA, but rather the contractual payment obligation created by each gift, and the added complexity that comes with managing a pool of them over time.

A prudently managed investment pool supports those

MECHANICS OF A CHARITABLE GIFT ANNUITY



Charitable Gift Annuity Programs |

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obligations, but does not eliminate the risk. If CGA pool assets are diminished due to underperformance, long-lived annuitants, or prior gift terms that were too generous, the payments still need to go out.

What Strong CGA Programs Have in Common

Durable CGA programs tend to share a few characteristics worth understanding, whether you are a donor evaluating a charity's stewardship or a nonprofit leader building or reviewing a program.

First, strong programs have clear, consistently applied gift acceptance guidelines. The organization knows what types of gifts it will accept, what it will avoid, and who has authority to approve exceptions. Discipline in this area protects both the donor and the organization.

Second, healthy programs maintain enough activity over time to allow for diversification by donor age, gift size, and payout rate. A CGA pool does not need to be huge to be well-run, but in a very small pool, a single long-lived annuitant, an unusually large gift, or an above-market payout rate can meaningfully skew results. New gift activity is what keeps a pool balanced and sustainable.

Finally, strong programs take administration seriously. Beneficiary records need to be accurate, payments made on schedule, and tax filings, state regulatory compliance, accounting, and recordkeeping handled reliably. Investment allocations should also reflect the expected payment horizon (duration) and liquidity needs of the pool. These behind-the-scenes tasks are

central to sound stewardship of a donor's gift.

Where CGA Pools Can Drift

Many struggling CGA pools do not begin as obvious problems. A pool is established, a few initial gifts are accepted, and payments go out on schedule. For a while, everything appears manageable. Over time, warning signs can quietly emerge: few new gifts coming in, heavy concentration in one donor or age band, rising administrative costs, or gifts going underwater.

A CGA pool in runoff, meaning one that is paying out more than it is taking in, is not necessarily a failure. It may still honor its obligations effectively and wind down in an orderly way. But it is a decision point that deserves deliberate attention. Leadership should weigh whether to rebuild the program, tighten gift acceptance guidelines, seek outside administrative or investment support, or manage the remaining obligations toward a planned conclusion.

A Practical Framework for Evaluating a CGA Program

For nonprofit leaders, a few practical questions can clarify whether a CGA program is on solid footing. For donors, these same questions offer a useful lens for evaluating whether a charity is managing its planned giving commitments responsibly:

- Who owns the program after a gift is accepted, and is that ownership clearly defined across Development, Finance, and Operations?
- Are gift acceptance guidelines current, documented, and consistently applied?
- Is the age mix, gift size, and payout rate of the pool being monitored over time?
- Is the pool being replenished

with new gifts, or slowly moving into runoff?

- Are payments, tax reporting, state filings, and recordkeeping handled reliably?
- Does the investment allocation reflect the duration and liquidity needs of the pool?
- Does the Board receive enough information to understand the program's health?

These are not only fundraising questions. They are governance, investment, and stewardship questions, and the answers matter to everyone with a stake in the promise being kept.

Building the Foundation

Our work in this area extends beyond traditional investment management. We advise charitable organizations on planned giving programs of all sizes, including CGA pools and charitable remainder trusts, providing investment management, payment processing, GAAP-compliant accounting, and required tax and regulatory filings. When asked, we also participate in conversations with donors to help ensure each gift is clearly understood and serves its intended purpose within a sustainable program. Whether an organization is considering launching a program, evaluating an existing pool, or simply needs hands-on support so their development team can stay focused on donor relationships, we help build and maintain the foundation their program depends on.

A CGA program is not just a means to fundraising. It is a long-term promise. When that promise is supported by clear policies, sound investment management, reliable administration, and consistent oversight, it can serve donors and nonprofits well for many years. |||||

MESSAGE FROM THE CEO



Peter J. Boyle, CFA
Chief Executive Officer

This year, we've been fortunate to welcome two talented Investment Counselors to our team.

Raymond Torres, a Certified Financial Planner® professional, joined us after nearly a decade at Northern Trust in Pasadena, where he developed expertise in financial planning and portfolio management for high-net-worth clients.

Charlotte Anten joined us with over 25 years of experience in

investment management and wealth planning. A Chartered Financial Analyst®, she builds tailored portfolios grounded in deep, meaningful client relationships. At Northern Trust—where she and Raymond worked closely together—she managed over \$400 million in client assets.

Hiring Charlotte and Raymond reflects our continued commitment to growing our team with purpose, ensuring we have the talent and depth to serve our clients well for years to come. Both share our commitment to personalized service, attention to detail, and long-term relationships—the values that define Clifford Swan. |||||

TRUMP ACCOUNTS LAUNCHING JULY 4

In February, we shared an overview on Trump Accounts, a new federal savings program for children. With the launch on July 4, 2026, we're revisiting how these custodial accounts compare to other savings options for minors:

Trump Accounts are designed for long-term wealth building. Investments are restricted to low-cost U.S. equity index funds until age 18, when the account converts to an IRA. Funds aren't accessible in childhood, so these work best as a retirement foundation, not a source of flexibility.

529 Plans remain the stronger choice for education funding, with significant tax advantages and high

contribution limits. The account owner retains control, which contrasts meaningfully with accounts that transfer to the child at majority.

UTMAs offer the most flexibility, with a broad investment range and no restriction on use, but assets transfer fully to the child at the age of majority, and the account generates taxable income annually.

Notably, for families with a child born between January 1, 2025 and December 31, 2028, a one-time \$1,000 federal seed deposit will be issued at the program's launch. No additional contributions are required to receive the deposit, but families can also contribute up to \$5,000 per year.

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We're happy to help you think through whether a Trump Account makes sense for your family and walk you through next steps. |||||